BRITISH COLUMBIA SECURITIES COMMISSION

2010/11

Annual Report

BCSC BRITISH COLUMBIA SECURITIES COMMISSION

InvestRIGHT BC Securities Commission Investor Education

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FREQUENTLY USED TERMS

ASC *Alberta Securities Commission:* the provincial securities regulator in Alberta.

CSA *Canadian Securities Administrators:* a council of the securities regulators of Canada's 13 provinces and territories.

CSTO *Canadian Securities Transition Office:* the organization appointed by the federal government of Canada to lead and manage the transition to a Canadian securities regulator.

IIROC *Investment Industry Regulatory Organization of Canada:* the national self-regulatory organization that oversees all investment dealers and trading activity on debt and equity marketplaces in Canada.

MFDA *Mutual Fund Dealers Association of Canada:* the national self-regulatory organization that regulates the distribution side of the Canadian mutual fund industry.

NI *National Instrument:* a document that sets out uniform rules to govern the national securities market, and deals with various regulatory matters.

NI 43-101 *National Instrument 43-101 Standards of Disclosure for Mineral Projects,* the national mining rule.

OTC *over-the-counter* (referring to markets, derivatives or other securities).

PASSPORT: governments and regulators in all Canadian provinces and territories, except Ontario, have established the securities regulatory passport system to give market participants simpler, faster, and cheaper access to Canada's capital markets. A market participant can get access to capital markets in all passport jurisdictions by dealing only with its principal regulator and complying with one set of harmonized rules.

SEDAR *System for Electronic Document Analysis and Retrieval:* the CSA's national electronic filing system for disclosure by public companies and mutual funds.

SEDI *System for Electronic Disclosure by Insiders:* the CSA's national web-based system that facilitates the filing and public dissemination of "insider reports."

SRO *Self-Regulatory Organization:* an organization recognized by provincial securities regulators as having powers to establish and enforce industry regulations.

TSX *Toronto Stock Exchange* operated by TMX Group Inc.: a national senior equity exchange.

TSX-V *TSX Venture Exchange:* a national junior equity exchange.

OUR PEOPLE

The success of the British Columbia Securities Commission depends on the skills and motivation of its staff, many of them professionals with specialized securities market expertise. The talent and diversity of the people working for the BCSC makes it a place where people like to stay and grow their skills. The BCSC attracts and retains qualified and dedicated staff members who are active and engaged in their communities. Our employees give their time to not-for-profit organizations outside of work, and many of them volunteer in our Staff Ambassador program, delivering investor and industry education seminars throughout the province.

Every year, BCSC staff members go beyond the call of duty to respond to the challenges posed by complex and dynamic securities markets. This report details their achievements and dedication to making the BCSC a leading securities regulator in Canada.

MESSAGE FROM THE CHAIR

PROPOSED NATIONAL REGULATOR

In May 2010, the federal government tabled a proposed *Canadian Securities Act* in the House of Commons. It also referred the draft Act to the Supreme Court of Canada to decide whether the federal government has the constitutional authority to implement the legislation as tabled. In July 2010, the Canadian Securities Transition Office (CSTO) released a plan for the establishment of the Canadian Securities Regulatory Authority to federal and provincial ministers of finance.

The Supreme Court heard the reference over two days in April 2011. The BC government opposed the federal government on constitutional grounds, stating that the position taken would significantly alter the division of powers between the provincial and federal governments.

The BC government also said that it continues to support the *concept* of a national regulator, and is prepared to negotiate with a view to adopting a national system of regulation in this province. Central to BC's concerns is the potential impact of a national regulator on BC's venture capital market and economy, especially given the dominant role of small business in our economy.

A decision from the Supreme Court is expected by the end of the year.

Despite the uncertainty, the BCSC continued to deliver on its mandate to protect investors, and foster fair and efficient markets. We worked diligently to meet our Service Plan commitments, which did not vary significantly during fiscal 2011. This year, we focused on two risks—unsuitable investments and securities fraud. Our staff worked cooperatively with the Canadian Securities Administrators (CSA), self-regulatory organizations (SROs), and other agencies to mitigate these risks.

CSA NATIONAL INITIATIVES

As the world economy slowly recovers from the financial crisis that started in 2007, the BCSC continues to work with CSA colleagues on global initiatives that respond to Canada's G20 commitments. This includes developing new rules and regulations to regulate credit rating agencies and over-the-counter (OTC) derivatives.

BCSC staff are also playing an important role within CSA, helping to complete a comprehensive risk scan for systemic risk as it relates to capital markets. Canada leads this important initiative through the working group of the International Organization of Securities Commissions (IOSCO). We are also working with CSA to develop a new framework for regulating securitized products. The proposals are in response to the risks exposed by the sale of asset-backed commercial paper to unsophisticated investors.

BRENDA M. LEONG

This year, we completed a national initiative to review and update the national mining rule. BCSC staff led the project for CSA. We consulted extensively with key stakeholders, and the resulting rule has received widespread support from market participants. The rule will come into effect at the end of June 2011.

PROPOSED CHANGES IN TMX OWNERSHIP

In February 2011, the TMX Group Inc. (TMX) and the London Stock Exchange Group (LSE) announced a $7 billion agreement to merge. The proposed merged company would be headquartered in London and Toronto. The Toronto Stock Exchange (TSX) would maintain core operations in Canada, with Vancouver and Calgary sharing responsibility for regulating the TSX Venture Exchange (TSX-V).

Before the merger can proceed, the TMX-LSE Groups will require approvals from the Canadian and Ontario governments, as well as securities regulators in BC, Alberta, Ontario, and Quebec. The BCSC received an application from TMX for approval. On May 13, 2011, the BCSC and Alberta Securities Commission (ASC) jointly published the application and are seeking comment from market participants to assist the commissions in their review. Shareholders of each of the TMX and LSE Groups are scheduled to vote on the merger on June 30, 2011.

On May 15, 2011, Maple Group Acquisition Corp., comprised of a number of major Canadian banks and pension funds, announced an alternative proposal to acquire TMX. To date, the commission has not received any filings relating to this proposal.

IMPORTANCE OF SMALL BUSINESS TO BC'S ECONOMY

Last fall, we co-sponsored with the ASC a conference about the challenges of raising capital for small businesses, both public and private. We learned a lot about the importance of these companies to our economy.

Small businesses generate about one third of the province's gross domestic product, are responsible for more than 40% of the total value of goods exported from the province, and create all new net private sector jobs in the province—meaning that they create jobs at a rate that more than offsets job losses elsewhere in the private sector. About 98% of British Columbia's businesses have less than 50 employees.

One factor that we think contributes to the success of venture capital raising in BC is our regulatory regime for companies that are not yet big enough to go public, and need to raise capital through the so-called "exempt market". This system allows start-up businesses to raise funds from investors under exemptions from the usual prospectus requirements.

MESSAGE FROM THE CHAIR

CONTINUED

This year, we examined this market in more detail. In fiscal 2011, private companies in BC raised almost $9 billion—82% raised under the "accredited investor" exemption. These numbers confirm just how important the exempt market is to BC's small businesses seeking capital.

Another factor that contributes to the success of small business is the ability to raise money publicly through the TSX-V, which is jointly regulated by the BCSC and ASC. Together with the TSX-V, we have created an internationally respected exchange for early stage companies.

Our focus has consistently been on keeping the cost of regulation reasonable and, while important generally, this cost is particularly critical for small businesses. For that reason, we are co-leading with the ASC a CSA project whose objective includes reducing the disclosure burden for small public companies, while at the same time ensuring investors continue to receive relevant information.

We consulted extensively on the proposals across Canada. Over 700 invitations were sent to companies, associations, investors, investor advocacy groups, dealers, advisers, lawyers, accountants, and exchanges. With the benefit of this stakeholder input, we will be publishing a proposed rule for comment this year.

INVESTOR PROTECTION

Exempt market

The great majority of businesses seeking financing in our markets are legitimate. Some, though, are not. Our staff work diligently to protect investors in the exempt market in the following ways.

First, we review the filings to look for red flags. When we find them, we follow up. Sometimes this leads to educating businesses about how to use the rules properly; other times it leads to suspension of their financing activities until they make the necessary changes.

Second, when we find out about people who are breaking the rules, we take enforcement action, and publicize the results.

Third, we spend a lot of time and resources on investor education, talking to people about the risks of investing in private companies. Most private company investments are illiquid and, in many instances, investors cannot get their money out unless the company goes public or is sold.

We are continuing to examine ways to make the exempt market more transparent for investors to protect them from the risks of investing in this market.

Enforcement process improvements

This year, we made changes to our enforcement strategies to enable us to bring cases to fruition more quickly. We call this the fast-track approach. Investigators and litigators are now working together much sooner to assess the scope of an investigation and evidence required for a hearing. While we only recently implemented this new approach, the results have been dramatic, resulting in double the number of notices of hearings issued this fiscal year by comparison with the last fiscal year.

Criminal investigation team

In January 2011, following a successful pilot project, we confirmed the creation of a criminal investigation team. Its mandate is to bring cases against those for whom administrative penalties are not a deterrent. Since the start of the pilot project, we have successfully referred 13 cases to Crown Counsel for prosecution. Because individual cases often have multiple charges, Crown Counsel laid 71 charges from the start of the pilot project to the end of fiscal 2011. I commend our staff and Crown prosecutors for their cooperative efforts and professionalism in working together to strengthen investor protection.

Investor protection through investor education

This year, we re-designed and wrote new content for our consumer website. In October 2010, we re-launched InvestRight, whose purpose is to help investors make wise investment decisions and, just as importantly, to avoid becoming involved in fraudulent investments. We use a mix of warnings and education through written materials, videos, interactive tools, and a blog. We also provide investor information on our Facebook, YouTube, and Twitter sites.

We continued our radio advertising campaigns, aiming investor protection messages at our key target audiences.

We reached out to the Chinese and South Asian communities with a Chinese "landing page" on the InvestRight website coupled with InvestRight seminars and radio advertising in Mandarin, Cantonese, and Punjabi.

We also developed groups of community volunteers to be our eyes and ears in communities across BC.

MESSAGE FROM THE CHAIR

CONTINUED

FINANCIAL PICTURE AT YEAR-END

We fund our operations entirely from fees charged to securities market participants. Our fee model generates revenue that grows generally with the long-term growth in the market, providing the resources to regulate increased market activity. Fee revenue fluctuates with market activity so we have set aside a fee stabilization reserve, equal to about six months of expenses, to provide a cushion to allow us to maintain regulatory operations without raising fees during any protracted period of weakness.

During fiscal 2011, we generated an operating surplus of $3.8 million, $4.9 million better than expected. We expected prospectus and exempt distribution fees to decline over the prior year and most other fees to grow very little. Instead, market activity reached record levels in some areas. Operating expenses increased 2.3% to $30.6 million, $0.5 million less than budgeted. The variance was due primarily to lower depreciation expenses, attributable to a change in the amortization period, and lower than expected occupancy costs.

RECOGNIZING STAFF AND COMMISSIONERS

I would like to acknowledge our staff for their hard work, dedication, and valuable contributions to securities regulation. I am honoured to lead an organization where so many talented people take pride in carrying out the BCSC's mandate to protect the public and foster fair and efficient capital markets. We accomplished some important initiatives this year, and I look forward to tackling the challenges ahead with our dedicated team.

I would also like to thank Paul Bourque, our Executive Director, who joined the BCSC in May 2010. He has provided strong leadership, energy, and guidance to all staff.

Finally, I would like to express my appreciation to the BCSC board for their continuing support and sage advice over the course of the year.

STATEMENT OF ACCOUNTABILITY

The 2010/11 BCSC Annual Report was prepared under my direction in accordance with the *Budget Transparency and Accountability Act* and the BC Reporting Principles. I am accountable for the contents of the report, including what has been included in the report and how it has been reported.

The information presented reflects the actual performance of the BCSC for the 12 months ended March 31, 2011 in relation to the Service Plan published in February 2010.

I am responsible for ensuring internal controls are in place to ensure performance information is measured and reported accurately and in a timely fashion. The measures presented are consistent with the BCSC's mandate, goals and strategies, and focus on aspects critical to the organization's performance.

The report contains estimates and interpretive information that represent the best judgment of management. In preparing it, we have considered all significant decisions, events, and identified risks, as of June 2, 2011.

BRENDA M. LEONG,
Chair and Chief Executive Officer

ORGANIZATIONAL OVERVIEW

BCSC VISION

To play a leading role in securities regulation that inspires investor confidence and supports fair, efficient, and innovative Canadian capital markets.

MISSION

The BCSC is the independent provincial government agency responsible for regulating capital markets in British Columbia through the administration of the *Securities Act*. Our mission is to protect and promote the public interest by fostering

- a securities market that is fair and warrants public confidence
- a dynamic and competitive securities industry that provides investment opportunities and access to capital

VALUES

Our values of integrity, accountability, and service guide our commitment to appropriate, effective, and flexible regulation. This commitment allows us to keep pace with quickly evolving capital market changes.

OVERALL BENEFIT

The BCSC benefits the public by protecting investors and the integrity of our capital markets. We

- review the disclosure that businesses raising capital must provide to investors
- review applications for registration from those that trade securities, provide advice, or manage portfolios or investment funds to ensure they are qualified, ethical, and solvent
- take action against those who contravene securities laws
- educate investors to protect themselves and industry participants to understand how to comply with securities law requirements

ENABLING LEGISLATION

The BCSC's enabling legislation is the *Securities Act*, RSBC 1996, c. 418.

We are accountable to the provincial legislature and the public through the Minister of Finance, to whom we submit this annual report and audited financial statements. We submit our three-year service plan to the provincial Treasury Board as required by the *Securities Act* and the *Budget Transparency and Accountability Act*.

SHAREHOLDER'S LETTER OF EXPECTATIONS

The provincial government sets out the following specific expectations of the BCSC in the Shareholder's Letter of Expectations. Our progress in meeting those expectations is noted below.

EXPECTATIONS	PROGRESS
Assist the provincial government with the federal government's development of a national securities regulatory framework (National Regulator Initiative) for consideration by governments.	The BCSC provided advice and expertise to the provincial government, and seconded a senior policy expert to the CSTO for eight months to work on regulations for the proposed *Canadian Securities Act*.
Work with other provinces and territories to strengthen the Canadian regulatory framework and investor protection.	The BCSC worked with the CSA on investor protection initiatives that respond to Canada's G20 commitments. *(Refer to Message from the Chair)*
Make best efforts to streamline, simplify, and harmonize securities laws with other provinces and territories.	The BCSC led the national initiative to review, streamline, and simplify the national mining rule. *(Refer to Message from the Chair)* The BCSC is also co-leading a project with the Alberta Securities Commission to assess the feasibility of implementing a regime of regulations tailored to the needs of the venture market. *(Refer to Message from the Chair)*
Work on issues arising under the Passport Memorandum of Understanding Regarding Securities Regulation.	The BCSC worked with CSA colleagues to develop and introduce amendments to the national registration rule to address issues that arose during the first year of implementation.
Comply with the Shareholder's requirements to make the Public Sector carbon neutral by 2010.	The BCSC purchased emission offsets to become carbon neutral for 2010. The BCSC also negotiated a six percent reduction in leased space, effective December 2011, and participated in a landlord-run "zero-waste" program to reduce / divert building waste.

GOVERNANCE

A board of up to 11 (currently eight) commissioners appointed under the *Securities Act* governs the BCSC. The commissioners have four categories of responsibilities. They

- review and approve the development and implementation of securities legislation, regulations, rules, policies, and guidance
- oversee the SROs, exchanges, and other marketplaces
- act as adjudicators on enforcement matters brought under the *Securities Act* and applications for review of decisions made by SROs and exchanges
- act as the BCSC's board of directors, overseeing the BCSC's management, operations, and financial affairs

Commissioners also sit on one or more of three committees: the Governance Committee, the Audit Committee, and the Human Resources Committee.

Except where noted in the BCSC's governance policy, the board's governance practices meet the government's *Best Practice Guidelines—BC Governance and Disclosure Guidelines for Governing Boards of Public Sector Organizations* (2005, Board Resourcing and Development Office of the Premier).

The governance policy requires that we disclose the following information about the Commission in the annual report:

Waivers—the Commission has an ethics and conduct policy. The board granted no waivers from that policy during the year.

Commissioner compensation and attendance records—please refer to page 42 in the financial report for the names of the commissioners, their attendance records, and their compensation.

Compensation consultants—please see page 42 in the financial report for information on the consultants retained this year.

Compliance with governance policy and procedures—there were no material deviations from the governance policy this year.

Our governance policy is on the BCSC website at www.bcsc.bc.ca *(About the Commission: Governance: Governance Policy)*.

More information about the membership and purpose of board committees, biographies of each commissioner and members of the senior management team, is available on the BCSC website at www.bcsc.bc.ca *(About the Commission: Governance, Who We Are,* and *Organizational Chart)*.

ORGANIZATIONAL STRUCTURE

ADVISORY COMMITTEES

This year, we reduced the number of advisory committees from four to two to provide feedback on our regulatory initiatives.

The BCSC re-examined its ongoing approach to consulting with the securities industry, and determined that it would benefit more from targeted consultations on important regulatory initiatives. We will be establishing a new consulting framework to replace the Securities Law Advisory Committee and the Securities Policy Advisory Committee.

Public Company Technical Forum of the Institute of Chartered Accountants of BC

This body of the Institute of Chartered Accountants of BC offers an opportunity for practicing accountants serving publicly traded companies to discuss their observations and concerns with the BCSC and TSX-V representatives. It also allows the BCSC and TSX-V to consult with accounting professionals on future securities regulation policy directions and the possible impact on public companies and their auditors.

CSA Mining Technical Advisory & Monitoring Committee

This committee of mining industry technical representatives serves as a forum for continuing communications between the mining industry and the CSA. For example, the committee advises the regulators about issues related to National Instrument 43-101 *Standards of Disclosure for Mineral Projects* (NI 43-101), mining industry and professional developments, and other matters related to securities regulation.

More information on committees is available on the BCSC website at www.bcsc.bc.ca.

In addition to these advisory committees, we consult with industry stakeholders on a less formal basis during the year. We also seek information on the needs and views of individual investors through our investor education seminars, the InvestRight website at InvestRight.org, and consultations with investor advocacy groups and individual investors.

KEY STAKEHOLDERS

- *The public*—which relies on us to foster capital markets that contribute to the well being of BC
- *Investors*—who seek to invest in fair and efficient securities markets
- *Issuers*—companies that rely on the capital markets to fund growth
- *Securities firms*—which advise investors and companies, and facilitate trades
- *Other regulators*—with which we enforce compliance, and develop and implement policy initiatives through the CSA
- *The provincial government*—to which we are accountable

CORPORATE FINANCE AND CAPITAL MARKETS STATISTICS[1]

FISCAL YEAR	2007	2008	2009	2010	2011
Registrants[2]	28,463	30,365	30,344	31,553	32,979
Active reporting issuers	6,316	6,505	6,960	7,212	7,213
Mutual fund prospectus filings	2,518	2,655	2,906	2,832	3,063
Prospectus filings (non-mutual fund)	851	878	515	828	1,045
Initial public offering filings[3]	307	409	214	184	308
Continuous disclosure reviews	289	168	279	341	298
Annual information forms	1,913	1,979	1,416	1,374	1,838[4]
Cease trading orders (reporting issuers)	338	230	361	437	334
Exemption applications	405	384	252	281	261[5]

1. Due to market conditions, overall activity was generally down in a number of areas in fiscal 2009 and fiscal 2010. In most areas, activity went back to prior levels in fiscal 2011.

2. Registration figures are drawn from the National Registration Database (NRD).

3. Initial public offerings (IPOs) are a subset of all prospectus filings.

4. The increase in annual information forms (AIFs) is related to the number of non-venture issuers voluntarily filing AIFs to access the short-form system as market conditions improved.

5. Passport for exemption applications came into effect in March 2008, and is responsible for the decrease in applications for the past three fiscal years.

CORE BUSINESS AREAS

Compliance

Better investor protection results when issuers, and securities firms and their employees registered under the *Securities Act*, understand and comply with their regulatory obligations. We achieve this by, in part, ensuring these organizations have effective compliance systems and controls in place.

Our Capital Markets Regulation division oversees securities firms that do not belong to a SRO, the SROs themselves, and exchanges and marketplaces doing securities business in BC. Our Corporate Finance division oversees companies and insiders.

In fiscal 2011, BCSC staff held seven outreach workshops, reaching over 400 individuals in our directly regulated community in person, or by webcast. These sessions focused on outcomes-based regulation, the national registration regime, and the passport system for registration.

We rely on the SROs to regulate investment dealers and mutual fund dealers, and trading activity in Canadian equity marketplaces:

- The Investment Industry Regulatory Organization of Canada (IIROC) regulates investment dealers and equities trading on Canadian marketplaces.
- The Mutual Fund Dealers Association (MFDA) regulates mutual fund dealers.

The CSA members share responsibility for overseeing SROs and several marketplaces. Each SRO has a CSA regulator leading the oversight work on behalf of all CSA jurisdictions.

The BCSC is the principal regulator for the MFDA, and is a participating regulator for IIROC. The BCSC and the ASC share lead regulatory responsibilities for overseeing the TSX-V. We exempt the TSX, the Canadian National Stock Exchange and the NASDAQ Stock Market, Inc. from recognition because we rely on oversight by their principal regulators in other CSA jurisdictions.

ENFORCEMENT

Effective enforcement requires decisive action against misconduct. Decisive action depends on

- using a variety of sources of information, including open channels for receiving tips, timely complaint reviews, and targeted surveillance
- thorough investigation of suspected misconduct
- resolution of cases through timely settlements, administrative decisions and, in cooperation with the Crown, criminal prosecutions, and, where appropriate, sanctions against wrongdoers

Crown Counsel obtained multiple convictions this fiscal year against five individuals from BCSC referrals over the past two years. Sentences varied, including a two-and-a-half-year jail term.

Our Enforcement division focuses on cases with a strong BC connection. When cases with national implications emerge involving a BC-based market participant, we usually take the enforcement lead. SROs generally deal directly with cases involving SRO member misconduct.

In Canada, we routinely cooperate and coordinate with other regulators, exchanging information formally and informally on a near-daily basis to the full extent that the laws in each jurisdiction allow. Reciprocal orders, in which we uphold enforcement actions from another jurisdiction, are an important part of our enforcement landscape.

This year, we issued 37 reciprocal orders based on sanctions of other securities regulators from across Canada and from foreign countries, as well as criminal sanctions from the courts.

We regularly cooperate and coordinate with US federal and state regulators, as well as other foreign regulators in enforcement matters.

We are active in the following international regulatory organizations:

- *North American Securities Administrators Association*—an organization of Canadian provincial, American state, and Mexican federal securities regulators
- *Council of Securities Regulators of the Americas*—a forum for mutual cooperation and communication among securities regulators in North, South, and Central America, and the Caribbean
- *International Organization of Securities Commissions* (IOSCO)—the international authority for global cooperation on regulatory standards, surveillance, enforcement, and information exchange among securities regulators

In addition, we have formal bilateral memoranda of understanding (MOUs) with specific foreign regulators, and a multilateral MOU with other IOSCO members. These establish processes and expectations for regulators assisting each other in gathering information for investigations.

The Enforcement report, which begins on page 58, provides a detailed summary of our enforcement activity and initiatives in fiscal 2011.

INVESTOR EDUCATION

Our goal is to educate investors so they can make informed investment decisions, and protect their financial interests. We want investors to research confidently, and assess potential investments critically *before* they invest. Research shows that many adults lack the knowledge and understanding they need to make sound investment decisions. For this reason, our Communications & Education division develops programs spanning all age groups, from high school students to seniors living on fixed incomes.

BC is the only Canadian province to include mandatory financial life skills training in high schools. Since 2004, we have provided BC high school teachers with a comprehensive financial life skills education resource known as *The City: Financial Life Skills for Planning 10*, which we completely updated and revised in fiscal 2011. The resource is also available online in English and French in partnership with the Financial Consumer Agency of Canada. The BCSC provides free training to student teachers and to teacher groups across the province.

In the past year, BCSC staff trained over 400 student teachers and over 800 teachers.

Our adult education programs target seniors, pre-retirees, and over-confident men in their fifties—three groups we know to be particularly vulnerable to investment fraud. If they fall victim to a fraud, the financial impact can be serious because they have less time to recover from financial losses than younger investors do. Through our newly revised website, InvestRight.org, we offer tools and information to help investors avoid and report investment fraud, and to help them understand risk and the basics of making informed investment choices. In addition, BCSC staff conduct province-wide outreach and seminars to engage ethnic communities and seniors groups.

In fiscal 2011, BCSC staff presented 50 InvestRight seminars to almost 2,100 people in communities across BC.

The BCSC Education fund report, which begins on page 65, gives a detailed summary of our investor education initiatives and activity in fiscal 2011.

POLICY-MAKING

Policy-making is one regulatory tool we use to protect investors and foster fair and competitive markets. We have the authority under the *Securities Act* to make rules. We also issue guidance to help market participants understand our requirements. Our Corporate Finance and Capital Markets Regulation divisions work to harmonize rules and guidance among all CSA jurisdictions, and mitigate compliance costs for market participants.

The BCSC led a CSA project, in close consultation with the mortgage investment industry, to restrict the application of the national registration regime to these already-regulated businesses. The result is that most of these firms need not register as portfolio managers or investment fund managers.

Within global capital markets, events in one country can reverberate around the world, challenging investors, market participants, and regulators. Since we operate within a national regulatory system, we work with the CSA to identify problems that warrant a national response.

We concentrate our work "on the ground" in BC to deliver effective securities regulation and to protect investors, coordinating our work with SROs and the CSA.

BCSC OPERATING CAPACITY

Capital markets are complex and fast moving. In order to regulate capital markets effectively, we acquire, understand, and act on intelligence from the markets we regulate. We allocate our resources using a risk-based approach, paying more attention to high-risk individuals, firms, and issuers.

We compete for professional staff with law and accounting firms, the securities industry, and other regulators. Like most of our competitors, we offer a compensation package that includes performance-based salary increases and incentives. To retain and recruit staff and remain market competitive, we conduct salary surveys annually.

We support our regulatory operations with robust internal controls and information management systems, including a disciplined approach to resource allocation. Our rigorous budgeting and strategic planning processes enable us to fulfill our market oversight role cost-effectively. The following chart compares operating spending over four years, along with our expectations for fiscal 2012.

FISCAL YEAR	2008 ACTUAL	2009 ACTUAL	2010 ACTUAL	2011 ACTUAL	2012 BUDGET
Operating expense	$ 28.4 million	$ 29.8 million	$ 29.9 million	$ 30.6 million	$ 33.3 million

Salaries, benefits, and occupancy costs account for about 85% of our operating costs. Operating expenses increased at an average annual rate of 2.7% for the 10 years ended March 31, 2011. We have not increased fee rates in more than 16 years.

Operating costs will increase in fiscal 2012, primarily attributable to the addition of staff resources to meet our Service Plan commitments. Resources will be directed to three areas to enhance our regulatory capabilities:

- Expansion of market intelligence
- Enhancement of risk-based approaches to regulatory operations
- Extension of IT capabilities

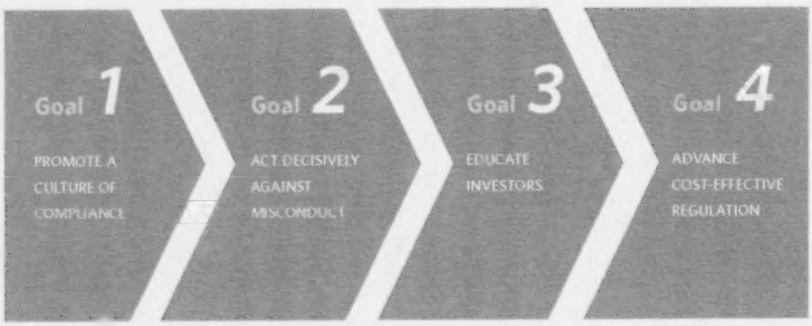
REPORT ON PERFORMANCE

Our mission is to protect and promote the public interest by fostering
- a securities market that is fair and warrants public confidence
- a dynamic and competitive securities industry that provides investment opportunities and access to capital

This section describes each goal, the strategies supporting it, and the measurable progress we made during fiscal 2011 towards achieving the goals. We also identified two risks in our 2010 Service Plan that present a threat to our mission. Some of the strategies described in this section are a direct response to those risks.

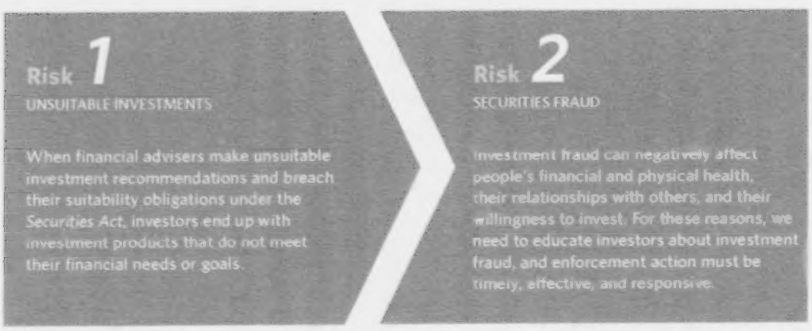
GOALS

Four goals support our mission:



STRATEGIC RISKS

We apply a disciplined risk management framework to help identify the most serious threats, or risks, to our mission. This framework gives us confidence that the following two risks carried forward from fiscal 2010 deserved continued regulatory attention in fiscal 2011.


Risk 1
UNSUITABLE INVESTMENTS
When financial advisers make unsuitable investment recommendations and breach their suitability obligations under the Securities Act, investors end up with investment products that do not meet their financial needs or goals.
Risk 2
SECURITIES FRAUD
Investment fraud can negatively affect people's financial and physical health, their relationships with others, and their willingness to invest. For these reasons, we need to educate investors about investment fraud, and enforcement action must be timely, effective, and responsive.

MEASUREMENTS

We design performance measurements for each goal to help us, and our stakeholders, assess our progress in achieving the goals. We select measurements based on the following criteria:

- *Connection to our goals*—We choose measurements that will assess our progress in achieving our goals and, through them, our mission.
- *Longevity*—We choose measurements that we will be able to track over several years, and whose trends will provide valuable information for improving our performance.
- *Measurability*—We choose measurements for which we can collect accurate data and form baselines in a timely way.

Some measurements track the overall progress we are making towards achieving our goals. Others measure key operational processes critical to the delivery of an efficient and effective regulatory system.

We critically evaluate our measurements yearly, to ensure they have integrity, and are meaningful. Accordingly, this may result in reconsidering the measure or the data collection method. In fiscal 2011, we achieved two-thirds of our measurement targets.

For a detailed review of our data sources, collection method and frequency, and controls, refer to pages 9–12 in the performance targets document available on the BCSC website *(About the Commission)*.

BENCHMARKS

Each year we look for opportunities to benchmark, and continue to test various methods for benchmarking competitiveness with other Canadian securities regulators. These measures are not tracked consistently across other CSA jurisdictions, so we do not have benchmark comparisons that help gauge our relative performance to our peers.

GOAL 1

PROMOTE A CULTURE OF COMPLIANCE

Investors are better protected if securities firms and securities issuers understand and comply with their regulatory obligations. They must have effective systems and controls in place to ensure compliance with our rules. We intervene to correct non-compliance when warranted.

STRATEGIES

Strategy 1.1 / Strengthen suitability risk management

To provide a suitable investment recommendation, a registrant must know the client, know the product, and match the client to the product. This strategy responded to ***Risk 1: Unsuitable Investments***, with the goal of making the strengthened suitability framework as effective as possible.

In fiscal 2011, we tested how well IIROC and the MFDA implemented their strengthened suitability frameworks. To do that, we reviewed how they revised their compliance examination programs, how they equipped their compliance examiners to examine against the strengthened framework, and how they educated their member firms to comply. We are satisfied that both IIROC and the MFDA have appropriately implemented their strengthened suitability frameworks.

We also worked with IIROC, the MFDA, and the Ombudsman for Banking Services and Investments to identify ways in which they can measure their effectiveness in ensuring suitability compliance. After identifying several possible measurement methodologies, in the third quarter of fiscal 2011, the board decided that it was appropriate for IIROC and the MFDA to choose their measurement methodologies in the normal course, and for the BCSC to monitor each SRO's effectiveness through our SRO oversight operations. So, the suitability initiative was withdrawn from last year's Service Plan but work, through our oversight of IIROC and the MFDA, continues.

Strategy 1.2 / Extend compliance officer outreach program to new classes of registrants

Under NI 31-103 *Registration Requirements and Exemptions*, two new groups became subject to registration requirements in 2010:

- Some firms that sell exempt products to investors are required to register as exempt market dealers.
- Firms that manage investment funds are required to register as investment fund managers.

Our goal was to help these firms adapt to the new regulatory requirements.

In fiscal 2011, we extended our Chief Compliance Officer Outreach Program to exempt market dealers and investment fund managers. We offered seven outreach programs, all of which were well attended. Over 400 individuals attended in person or by webcast. We targeted four of the seven programs specifically at these new registrant communities. We offered the other three to all 91 directly regulated firms in BC, including these new registrants.

We surveyed attendees after each program, and the feedback was overwhelmingly positive. We also conducted post-registration meetings with each new registered firm to communicate our compliance expectations face-to-face. Feedback from these meetings was, again, very positive.

MEASUREMENTS

Measurement 1.1 / Percentage of reviewed issuers that reduce deficiencies in their continuous disclosure

Our Corporate Finance division reviews issuer disclosure for non-compliance. At the end of each fiscal year, we retain an independent consultant to analyze the subsequent continuous disclosure of a statistically significant random sample of issuers that received comment letters from us during that year. The results of this review show the extent to which our detailed CD review work motivated non-compliant issuers to improve their disclosure voluntarily.

STATUS: PARTIALLY MET — RESULTS AND TARGETS

FISCAL	2009 ACTUAL	2010 ACTUAL	2011 TARGET	2011 ACTUAL	2012 TARGET
PERCENTAGE OF REVIEWED ISSUERS THAT REDUCE DEFICIENCIES IN THEIR CONTINUOUS DISCLOSURE					
Improved disclosure	100%	100%	> 95%	97.1%	> 95%
Improved disclosure to minimum standards	87%	97%	> 95%	94.1%	Set new baseline[2]

1. 33 of 34 (97%) issuers improved their disclosure in some areas. 32 (94.1%) improved to meet the basic standard for compliance. One issuer did not show any improvement in its disclosure, and remains cease traded.
2. Canada adopted international financial reporting standards (IFRS) on January 1, 2011, which changes the minimum standards. It will take two fiscal years for the baseline to reset.

Notes on measurement: This measurement always lags by one year because we have to wait for the next filing cycle to evaluate improvements from a prior year's disclosure.

Measurement 1.2: The degree to which randomly sampled mining issuers comply with standards for technical disclosure

BC is home to most Canadian mining issuers. For this measurement, we randomly select from a list of BC-based mining issuers, and analyze whether those issuers' most recent technical filings were compliant with NI 43-101. This review shows the extent to which a sample of BC-based mining issuers was compliant in specific areas of their technical disclosure.

STATUS: NOT MET	RESULTS AND TARGETS				
FISCAL	2009 ACTUAL	2010 ACTUAL	2011 TARGET	2011 ACTUAL	2012 TARGET
THE DEGREE TO WHICH RANDOMLY SAMPLED MINING ISSUERS COMPLY WITH STANDARDS FOR TECHNICAL DISCLOSURE					
Filed disclosure	73%	61%	> 75%	66%	75%
Issuer websites	65%	50%	> 75%	46%	65%

Notes on measurement: We measure the degree to which BC mining issuers meet mining disclosure standards. In our view, an average score of 70% or better indicates that issuers are making an acceptable effort to comply. The results for fiscal 2011 were consistent with the previous year, and remained below targeted levels. We have attributed the decline from fiscal 2009 to the very active resource markets in fiscal 2010 and fiscal 2011, which have resulted in new entrants into the market who were unfamiliar with disclosure requirements.

In February 2011, we initiated a targeted review program intended to hold issuers accountable for non-compliance in certain specific areas of NI 43-101. Under this program, we will put issuers who have materially non-compliant mining disclosure on our defaulting issuers list until they correct the disclosure. In most cases, the issuer will need to issue a news release identifying the non-compliance and retracting or restating this disclosure as necessary. In 2011, changes to NI 43-101 will make issuers more accountable for disclosure on their websites. By holding issuers more accountable for non-compliance, we anticipate restoring compliance levels to fiscal 2009 levels for fiscal 2012.

Measurement 1.3: Average number of deficiencies per examination in Capital Markets Regulation

Our Capital Markets Regulation division conducts focused field reviews of securities firms that are not SRO members for compliance with their regulatory obligations. Staff adjust examination selection quarterly based on risk-based assessment models. During fiscal 2011, we completed 32 on-site reviews. We report results using 46 categories of deficiencies.

STATUS: MET	RESULTS AND TARGETS				
FISCAL	2009 ACTUAL	2010 ACTUAL	2011 TARGET	2011 ACTUAL	2012 TARGET
AVERAGE NUMBER OF DEFICIENCIES PER EXAMINATION IN CAPITAL MARKETS REGULATION[1]					
	6.9	7.56	7.2	3.88	3.69[3]

1. Based on 32 examinations in the year ending March 31, 2011, 16 in 2010, and 20 in 2009 (excluding "for cause" examinations). However, this measure of all deficiencies without regard to their seriousness, is only one measure that staff use to determine whether a firm has a culture of compliance. Other measures include significant deficiencies and risk ratings.

2. Our examination program is risk-based, and examination approaches vary depending on the type of firm and how much risk that firm represents. The number of deficiency categories changes from year to year to reflect changes in the law and current compliance concerns.

3. The number of deficiencies dropped by 46% in fiscal 2011. We think this is because:

   - BC participated in a national marketing sweep. Five compliance examinations this year focused on marketing issues only, resulting in small numbers of deficiencies in those reviews.
   - staff used more risk-focused review practices, which likely reduced the number of deficiencies.

GOAL 2
ACT DECISIVELY AGAINST MISCONDUCT

We aim to achieve timely enforcement through early intervention and the pursuit of cases that will deter future misconduct. The BCSC cooperates with securities regulators in other jurisdictions to share information, conduct investigations, and issue reciprocal enforcement orders. We also aggressively pursue securities fraud cases and other misconduct through administrative proceedings. Under administrative proceedings, the BCSC can impose monetary sanctions, and order people out of the market. We work closely with Crown Counsel to pursue criminal charges where warranted. Criminal convictions allow for the imposition of penalties, including prison sentences, which help deter serious misconduct.

STRATEGIES

Strategy 2.1 / Recruit and train community volunteers to recognize and report suspicious investment promotions

Many frauds are broadly marketed to the BC public, and actively promoted to people who respond to ads or attend investment seminars. This new program recruited and trained volunteers throughout the province to be our eyes and ears for active investment promotions in their communities. These types of real-time leads enable us to move in while a scheme is active, and mitigate harm to investors. In some cases, early intervention involves issuing freeze orders, which can help preserve assets for investor claims.

During fiscal 2011, we trained over 50 community volunteers who work with the RCMP and city police in Nanaimo, Kelowna, Kamloops, and Victoria. As a result, we received 11 tips. We provided news and information to coordinators in each area as well as a six-month report to update them on the status of the program.

Strategy 2.2 / Detect and deter fraud through industry outreach and intelligence gathering

In order to detect and deter fraud, we need to gather and assess information from a variety of sources. In fiscal 2011, our goal was to supplement our ongoing work with policing agencies by working with industry. We planned to build stronger referral networks with banks, and to build on our intelligence function to strengthen our ability to obtain securities industry leads on investment fraud.

Police outreach

A close working relationship with law enforcement agencies is an important component of the BCSC's efforts to protect BC investors. In fiscal 2011, staff continued the successful police outreach program to strengthen our ability to detect fraud in its early stages. They presented eight seminars to members of the RCMP and municipal law enforcement agencies. The seminars targeted fraud investigators and general duty officers who often receive the first complaint. They also provided information to municipal police recruits training at the Justice Institute of British Columbia. The recruits learned about how the BCSC enforces the *Securities Act*, and how the BCSC can work with police agencies.

As a direct result of these presentations, there were nine significant requests for assistance or referrals as well as five other tips that came directly to our investigation branch. Three led to the opening of a formal investigation file, and two others provided additional information for cases already under investigation in Enforcement. In almost all cases, the requests for assistance we received from the police last year resulted from a member of the public, usually a victim, complaining to the police about a theft or fraud relating to investments.

Bank outreach

Bank employees are often the first to detect suspicious investment activities. During fiscal 2011, BCSC staff met with the corporate security staff at four of the chartered banks. One of the banks then arranged for our staff to present information to their retail representatives and to the group that deals with BC companies. We later met with the BC Chapter of the Canadian Bankers Association, which included staff from the corporate security departments of all the chartered banks with offices in BC.

Our work with the banks led to a tip that allowed us to freeze approximately three million dollars that victims of a United Kingdom boiler room had deposited. We then provided information to the City of London Police, which they used to charge two UK citizens with fraud and money laundering.

We received a total of six tips during the year on specific deals where money was coming into or going out of the bank. Of those, two provided general intelligence, one related to the UK boiler room victims, two involved undertakings not to transfer or withdraw money until our concerns were resolved, and one matter is still being assessed.

Dealer outreach

Also during the year, staff maintained informal contact with compliance staff at dealer firms. When appropriate, we sent mass emails to BC dealers that trade on the TSX-V. One of these emails caused dealers to refuse to open an account, which successfully disrupted a likely pump and dump scheme. During the year, we received 12 tips from dealers. Of those, one led to a formal investigation file; one resulted in disruption; and one remains under assessment. Four files were referred to Corporate Finance staff for review.

MEASUREMENTS

Measurement 2.1: Action in response to ongoing misconduct

Early detection and intervention helps to protect investors, particularly in illegal distribution cases where investor losses tend to increase exponentially over the life of the distribution. Most complaints result from the failure of an investment opportunity (loss of funds and inability to contact the seller), and we normally do not hear about it until the investment has collapsed. We track the cases accepted each year for enforcement action where there is active misconduct. We then track the time taken before the Enforcement division takes disruptive action to freeze assets, issue a cease trade order, or take other steps to disrupt the misconduct.

STATUS: MET — RESULTS AND TARGETS

FISCAL	2009 ACTUAL	2010 ACTUAL	2011 TARGET	2011 ACTUAL	2012 TARGET
AVERAGE NUMBER OF DAYS BEFORE WE INTERVENED IN CASES INVOLVING ACTIVE MISCONDUCT	N/A[1]	N/A[1]	110[2]	108	97

1. *We revised the measurement in fiscal 2011 as discussed below. Therefore, we have not included measurements for the previous two years because they are not comparable.*
2. *In fiscal 2010, we introduced a new program to proactively seek out active illegal distributions. Using this program, we track a specific number of intervention types, and measure how long it took us to implement the intervention from the opening of the complaint.*

Notes on measurement: We measure this statistic by looking backwards from the disruptive action taken to the discovery of the case. We check whether the activity was active when we discovered it. We then measure the time taken by the Enforcement division to act on these incidents. We changed this measure for fiscal 2011 to create a heightened sense of urgency when considering active misconduct. By focusing on the time required to take action (rather than the previous percentage), we encourage staff to act quickly to disrupt schemes in progress.

Measurement 2.2: Timely resolution of enforcement cases

This measures the average time to complete our administrative enforcement cases. For the cases we close by settlement or decision in the fiscal year, we measure the average number of months from the date we first learn of the conduct to case completion. Reciprocal orders are not included.

STATUS: 2011	RESULTS AND TARGETS				
FISCAL	2009 ACTUAL	2010 ACTUAL	2011 TARGET	2011 ACTUAL	2012 TARGET
AVERAGE LIFE IN MONTHS OF CASES RESOLVED VIA SETTLEMENT OR DECISION	47	27.7	41.5	25.5[1]	28

1 *New enforcement processes significantly improved our results for fiscal 2011 over the target established for this year. These procedures provided expedited assessment of cases, allowing staff to resolve many matters more quickly, and also earlier identification of files requiring more in-depth investigation. The same changes are responsible for a 100% increase in Notices of Hearing for fiscal 2011 over fiscal 2010.*

Notes on measurement: At the beginning of each year, we set our targets using the open cases in Enforcement. We then develop completion projections drawn from internal service standards for the key steps within the enforcement process (i.e., assessment, investigation, litigation). This measure does not consider the volume of cases worked on and completed.

During fiscal 2011, the Enforcement division also conducted an analysis of this measure with assistance from the Statistics department at Simon Fraser University. The analysis confirmed that because of the very small sample sets, different types of cases, and the influence respondents have on the outcome, past performance was not a sound measure for predicting future results. For fiscal 2012, we will measure decisions separately from settlements, and only on that portion of the case for which Enforcement is directly responsible (i.e., up to the notice of hearing or settlement proposal).

GOAL 3
EDUCATE INVESTORS

Our goal is to help investors protect their financial interests. We want investors to have the confidence to research and assess potential investments before they invest.

We focus on these core areas to support a successful investor education program:

- *Increase public awareness*—We increase awareness of our education programs so that investors learn the skills they need to help them protect their finances.
- *Reach investors early*—We expand financial life skills programs to help investors spot fraudulent investments before they suffer investment losses.
- *Strengthen investor education*—We provide tools and information to help investors get better service and advice.
- *Develop partner relationships*—We build partnerships to reach ethnic and religious communities throughout the province.

STRATEGIES

Strategy 3.1 / Encourage friends and family to report investment fraud

Friends and family are in a unique position to observe the changes in behaviour that come into play when someone is being defrauded. CSA research shows that friends and family have a greater awareness than do victims of the social, emotional, and health issues that affect people who have lost their money in an investment fraud.

Under this strategy, in fiscal 2011, we targeted friends and family of fraud victims to encourage early reporting of suspicious investments and potential frauds in several different ways:

- We contracted a consultant in the South Asian community to help BCSC staff make inroads into that community, and establish contact so that we could present to members of that community our message about the importance of friends and family reporting suspicious activity. Through this collaboration, we reached out to South Asians in five communities, and held two seminars at the Ross Street Sikh temple.
- We included key messages in our revised InvestRight seminars encouraging friends and family to report.
- Key components of our revamped InvestRight website include requests for friends and families to report suspicious activity and a list of questions for people to use if they think a friend, family member, or group they belong to is the target of an affinity fraud.

MEASUREMENTS

Measurement 3.1: Complaints and tips received from InvestRight programs

Through our public awareness and outreach programs, we aim to increase the flow of complaints and information we receive about possible investment frauds or illegal activities. This network of information helps us disrupt, stop, or prevent these activities.

STATUS: MET	RESULTS AND TARGETS				
FISCAL	2009 ACTUAL	2010 ACTUAL	2011 TARGET	2011 ACTUAL	2012 TARGET
NUMBER OF COMPLAINTS AND TIPS RECEIVED AS A RESULT OF INVESTRIGHT INVESTOR EDUCATION AND INDUSTRY OUTREACH PROGRAMS	87	68	71	78	82

Notes on measurement: We set targets according to the expectation that InvestRight education activities and policing agency referral programs will generate more leads over time. We track the number of leads and complaints we receive from these activities that are reported through our Report a Scam and Complaint Forms on our InvestRight website.

Measurement 3.2: Workshop participant application of investor education messages

We deliver investor education workshops to BC residents, primarily seniors. We report on the percentage of workshop participants who recall investor education messages about the warning signs of fraudulent investments because it is a key learning outcome from our seminars.

STATUS: NOT MET	RESULTS AND TARGETS				
FISCAL	2009 ACTUAL	2010 ACTUAL[1]	2011 TARGET	2011 ACTUAL	2012 TARGET
PERCENTAGE OF WORKSHOP PARTICIPANTS WHO APPLIED INVESTOR EDUCATION MESSAGES BY IDENTIFYING "RED FLAGS"					
	11%	11%	14%	13%	16%

1 *We discontinued three of four measurements for fiscal 2010 to focus on whether participants learn how to identify "Red Flags" of fraudulent investments.*

Notes on measurement: Our goal is to grow awareness of our investor education warnings, or "Red Flag," messages. We use a consultant to conduct a follow-up phone survey, several months after each seminar, with participants who agree to be contacted. Awareness remained high this year for recollection of the "Guaranteed high returns/too good to be true" warning sign, increased for awareness of the "offshore investment" warning, but fell off sharply for the affinity ("friends can't be wrong") and insider tips ("profit like the experts") messages, a drop that may explain the lower than targeted result.

Measurement 3.3: Percentage of BC public aware of BCSC

BCSC investor education resources provide BC retail investors with valuable information to help them protect themselves from fraud and unsuitable investments. We aim to build awareness of the BCSC and our many investor education resources so that British Columbians will know where to turn, and what to do, when faced with a possible fraud or unsuitable investment opportunity.

STATUS: MET	RESULTS AND TARGETS				
FISCAL	2009 ACTUAL	2010 ACTUAL	2011 TARGET	2011 ACTUAL	2012 TARGET
PERCENTAGE OF BC PUBLIC AWARE OF BCSC					
	43%	36%	45%	46%	45%

1 *The 43% and 36% figures come from 2009 and 2010 national investor surveys, respectively. The 46% figure for 2011 came from a BCSC commissioned survey that shows awareness in the general Canadian population. Awareness among BC investors is higher, at 62%.*

Notes on measurement: Forty-six percent awareness represents a steady increase in awareness among all British Columbians that there is an agency responsible for regulating securities in BC.

GOAL 4
ADVANCE COST-EFFECTIVE REGULATION

Our goal is to advance cost-effective regulation. Regulation imposes costs through fees, compliance costs, and restrictions on innovation. Investors inevitably pay these costs. We aim to provide strong investor protection and market integrity for the least cost.

We advance cost-effective regulation by focusing on three core areas:

- *Emphasize practical solutions*—When the market cannot fix market problems, we emphasize practical solutions, looking at the full range of potential regulatory responses and advancing only those that will provide significant benefits that exceed the costs.
- *Use our resources efficiently*—We deploy our resources efficiently through risk management, teamwork, and relevant performance measures.
- *Deliver services reliably*—We deliver key regulatory services, on a timely basis, recognizing that delay adds to costs for market participants.

STRATEGIES

Strategy 4.1 / Co-lead project to develop a streamlined regulatory framework for venture issuer disclosure and governance

The BCSC is co-leading, with the ASC, a project to assess the feasibility of implementing a regime of regulation tailored to the needs of the venture market. Several other provinces are participating.

In May 2010, we published a consultation paper *Tailoring Venture Issuer Regulation*. In June 2010, BCSC staff and their CSA colleagues met with issuers, company associations, investors, investor associations, dealers, advisers, lawyers, accountants, and stock exchange staff at 14 consultation sessions in Halifax, Toronto, Montreal, Winnipeg, Calgary, Edmonton, and Vancouver. Approximately 230 market participants attended these sessions. BCSC staff attended each of these sessions. CSA staff held eight smaller meetings in fall 2010 with investors, investment advisors, accounting firms, and legal associations. The purpose of the spring and fall sessions was to discuss existing and proposed rules for venture issuers, and obtain feedback.

In addition to the feedback from these in-person sessions, we received 35 formal written comment letters in response to the consultation paper. During fiscal 2012, we expect to publish a proposed rule for comment. After that, we will assess whether we should continue to develop the regime.

Strategy 4.2 / Improve access to information from our national filing systems

Last year, the CSA began a project to redevelop the systems used to facilitate the filing and delivery of mandated regulatory documents. This presented an opportunity for us to review a number of our disclosure and delivery requirements in light of current technologies to potentially reduce regulatory compliance costs, better inform investors, and improve regulatory effectiveness. This multi-year project links strongly to our goal to advance cost-effective regulation.

In fiscal 2011, we worked with the CSA to draft a national filings system enterprise-architecture to summarize how existing systems work and propose a roadmap for future changes. That work continues. In addition, the CSA started work on a comprehensive security framework for the new systems.

We took steps to provide better information to investors by leading a CSA project to include SRO disciplinary information in the CSA National Disciplined Persons list. Working with IIROC and the MFDA, the CSA established a central, online location to make it easier for investors to perform a comprehensive search of disciplined persons, which we announced in March 2011.

MEASUREMENTS

Measurement 4.1: Average score on cost-effective regulation scorecard

To measure cost-effective regulation, we use a scorecard that tracks the important steps and outcomes in responding to market problems. We apply the scorecard to all CSA and local projects. For CSA projects, the scorecard reports on the extent to which we took steps to advocate our cost-effective regulation principles. For all projects, the scorecard gives credit for outcomes-focused results.

We commit ourselves to continually improving our execution relative to the standards we have set for creating cost-effective regulations.

STRATEGIC AIM	RESULTS AND TARGETS				
FISCAL	2009 ACTUAL	2010 ACTUAL	2011 TARGET	2011 ACTUAL	2012 TARGET
AVERAGE SCORE ON COST-EFFECTIVE REGULATION SCORECARD					
	89%	88%	> 90%	95%	> 90%

Notes on measurement: We report the average score of all the projects completed each year. In fiscal 2011, we had six policy projects that qualified for review, five of which were national rules. We do not include rules that we adopt purely to harmonize with other jurisdictions in this analysis. The process the CSA uses to create harmonization rules does not consider problem definition or alternative tools. Our score means that on average we hit the standards on the scorecard for all but one area. The one local rule met all of our standards.

Measurement 4.2: Average approved project post-implementation score

For this measurement, we define a "project" as an IT-enabled initiative that either costs more than $10,000 or takes more than 20 person days. We justify these local projects in writing, and include a description of the expected benefits. Some projects forecast a return on investment generated by cost savings or cost avoidance that "pays" for the project. Other projects promise efficiency improvements or improved quality, accuracy, or control.

STRATEGIC AIM	RESULTS AND TARGETS				
FISCAL	2009 ACTUAL	2010 ACTUAL	2011 TARGET	2011 ACTUAL	2012 TARGET
AVERAGE APPROVED PROJECT POST-IMPLEMENTATION SCORE					
	95%	83%	80%	N/A[1]	80%

1. *We have not completed measuring the success criteria for Microsoft Exchange, the one project captured by this measure in fiscal 2011. We will collect the remaining measurements in fiscal 2012, and report the results in our next annual report.*

Notes on measurement: We assess each IT-enabled project at a predetermined time after the project's completion (as documented in the project proposal), and score the project's success relative to its proposed benefits.

FINANCIAL REPORT

AUDITED FINANCIAL STATEMENTS

MANAGEMENT DISCUSSION & ANALYSIS

FOR THE YEAR ENDED MARCH 31, 2011

We prepared this discussion and analysis of financial position and results of operations of the British Columbia Securities Commission (BCSC) on May 19, 2011. Read it in conjunction with our audited financial statements and related notes for the year ended March 31, 2011.

We prepared the financial information in this report in accordance with Canadian generally accepted accounting principles. We report in Canadian dollars. *Totals and percentages may not always add up due to rounding.*

INTERNAL CONTROL OVER FINANCIAL REPORTING

Our fiscal 2010 evaluation of the effectiveness of internal control over financial reporting (ICFR) uncovered one control gap with the potential to materially affect ICFR. The gap was an outdated business continuity plan. Except for updating our business continuity plan, there were no ICFR changes during fiscal 2011.

Our fiscal 2011 ICFR evaluation did not identify any control gap that has materially affected or is reasonably likely to materially affect ICFR.

NATURE OF OPERATIONS

We are the provincial crown corporation responsible for regulating BC capital market activity.

We do not receive transfers from government tax revenues. Instead, fees charged to securities market participants fund our operations. Revenues fluctuate with market activity while most of our costs are fixed. Salaries, benefits, and occupancy costs account for about 85% of operating expenses. For the year ended March 31, 2011, we had an average of 195 full-time equivalent employees (fiscal 2010 - 190).

As a government agency, we are exempt from income taxes. We pay HST but receive a 100% rebate on taxable purchases.

We focus our staff effort (with overhead allocated proportionately) on our strategic goals:

STRATEGIC GOAL	FISCAL 2011	FISCAL 2010
Promote a culture of compliance	38%	36%
Act decisively against misconduct	38%	38%
Educate investors	9%	9%
Advance cost effective regulation	15%	17%

REVENUE SOURCES (We discuss Education reserve revenues separately, on page 35.)

About 95% of our operational funding comes from filing, registration, and application fees paid by market participants under the *Securities Act*. The remainder of our operational funding comes from investment income and enforcement cost recoveries, if any.

A large part of our fee revenue comes from fees paid by mutual funds to distribute securities and file financial statements, and fees paid by the five largest Canadian banks to register their representatives.

Our fee model is premised on generating sufficient revenue to allow us to break even over the business cycle. We generate surpluses during high points in the market's cycle, and may generate deficits during bear market periods.

We collect the following fees:

		Percentage of fee revenue	
FEE TYPE	SOURCE	FISCAL 2011	FISCAL 2010
Distribution fees	Public companies, private companies and mutual funds, to file disclosure documents	53%	53%
Registration fees	Firms and individuals, to register with us to sell or advise on securities	32%	31%
Financial filing fees	Public companies and mutual funds, to file annual and interim financial statements	14%	15%
Other fees	Market participants, primarily to request *Securities Act* exemptions	1%	1%

Distribution fees

Distribution fee revenues vary depending on the number and size of securities offerings. The largest share of distribution fee revenue comes from prospectuses[1], exempt distribution reports[2] and annual information forms[3]. Issuers pay fees to file these documents. When gross sales under a prospectus and an exempt offering exceed $7.5 million and $0.3 million, respectively, an additional fee, called a "percent of proceeds fee," may be payable.

Our revenue from distribution fees falls significantly during weaker markets because fees related to gross sales account for about half of distribution fee revenue.

More than half of distribution fee revenue relates to fees from mutual fund sales in BC. We receive the majority of revenue related to mutual fund sales in arrears, so distribution revenue changes lag market events.

1. Companies and mutual funds must normally prepare a prospectus before raising money from the public. A prospectus gives details of the operations, financial status and management of the company or fund.
2. Prospectus exemptions allow companies to sell securities without a prospectus when other factors (like relationship or financial sophistication) permit investors to have access to all information about the proposed transaction that could affect their purchase decision.
3. Annual information forms give current details of the operations, financial status and management of the company.

Registration fees

Firms and individuals register with us to sell or advise on securities. Historically, registration fee revenue had low volatility and grew steadily over the last decade. Registration requirement changes implemented during fiscal 2010 significantly increased fiscal 2011 registration fee revenue, as more individuals and firms were required to register.

Financial filing fees

Companies and mutual funds (reporting issuers) pay a fee to file their financial statements, and pay a higher fee if they file late. The reporting issuer population increases modestly most years.

Other fees

Other fees are mostly exemption application filing fees. Other fees account for a small proportion of fee revenue and are not growing.

ENFORCEMENT COST RECOVERIES

Enforcement cost recoveries are comprised of hearing cost recoveries and amounts designated under settlements as cost recoveries. We no longer assess cost recoveries, but vigorously pursue outstanding amounts. Collecting cost recoveries is difficult because respondents often have limited assets, poor credit or have left BC. Since our incorporation on April 1, 1995, we have collected $4.1 million (68%) of $6.0 million assessed. We have not recognized as revenue any of the outstanding $1.9 million because collectability is unlikely.

INVESTMENT INCOME

Our prime investment objectives for surplus funds are capital preservation and sufficient liquidity so we can meet our expenditure commitments. We invest in highly liquid, high quality money market instruments, government securities and investment-grade corporate debt securities.

EXPENSES

Salaries, benefits, and occupancy costs account for about 85% of our expenses.

We are committed to managing our expenses so they do not exceed expected revenue over the business cycle. We do this by preparing an annual budget approved by the Board, monthly budget variance reporting to management, requiring Board approval of significant unbudgeted expenses, and continually improving our processes.

MANAGEMENT DISCUSSION & ANALYSIS

FOR THE YEAR ENDED MARCH 31, 2011

CONSOLIDATED HIGHLIGHTS

(millions)	THREE MONTHS ENDED MARCH 31			FOR THE YEAR ENDED MARCH 31		
	2011	BUDGET	2010	2011	BUDGET	2010
OPERATIONS						
REVENUES						
Regulatory fees	8.6	7.3	7.9	33.5	29.2	30.8
Investment income	-	0.2	0.1	0.9	0.9	0.3
	8.6	7.5	8.0	34.4	30.0	31.1
EXPENSES						
Salaries and benefits	5.9	6.0	6.0	23.5	23.7	23.1
Other expenses	1.9	1.9	1.9	7.0	7.4	6.9
	7.9	7.9	7.8	30.6	31.1	29.9
Excess (deficiency) of revenue - operations	0.7	(0.4)	0.2	3.8	(1.1)	1.2
EDUCATION RESERVE						
Enforcement sanctions and investment income	0.1	0.1	-	0.4	0.4	0.3
Education program disbursements	(0.3)	(0.2)	(0.4)	(0.6)	(0.9)	(0.9)
Deficiency of revenue - education	(0.2)	(0.1)	(0.4)	(0.2)	(0.6)	(0.6)
CONSOLIDATED EXCESS (DEFICIENCY) OF REVENUE	0.6	(0.5)	(0.2)	3.6	(1.6)	0.6

ACCUMULATED SURPLUSES	MAR 31	MAR 30
General	14.1	10.3
Fee stabilization reserve	15.0	15.0
Education reserve	2.8	3.1
	32.0	28.3

Quarterly consolidated excess revenue was $0.6 million, $0.8 million higher than the comparative period and $1.1 million better than expected.

We expected lower market activity. Instead, market activity reached record levels, resulting in higher than expected distribution, registration and financial filing revenue. In particular, quarterly operating results were favourably impacted by increased securities distribution activity in the exempt market, particularly pooled funds, and, from non-mutual fund prospectus offerings. Registration filings were also significantly higher due to expanded registration requirements.

Quarterly Education reserve activities generated a $0.2 million deficit, $0.1 million higher than expected and $0.2 million lower than the comparative quarter due to timing of enforcement sanctions and education expenditures. Most education spending relates to the development of financial literacy materials and an ongoing radio campaign.

Fiscal 2011 consolidated excess revenue was $3.6 million, $3.0 million ahead of the comparative period and $5.2 million better than expected.

Annual operating revenues were higher than the comparative period and higher than expected due to increased securities distribution activity and higher registration filings. Investment income was higher than the comparative period, as expected.

Annual Education reserve activities generated a $0.2 million deficit, $0.4 million lower than expected and $0.4 million lower than the comparative period due to lower than expected expenditures.

We ended the year with $41.3 million in cash and cash equivalents, a $4.8 million increase from the prior year primarily due to fiscal 2011 excess revenues net of depreciation, a non-cash item.

DETAILED ANALYSIS OF QUARTERLY OPERATING RESULTS

(See page 35 for Education reserve discussion)

Quarter Ended March 31, 2011

	ACTUAL VERSUS BUDGET				ACTUAL VERSUS LAST YEAR			
(thousands)	MAR '11	BUDGET	VARIANCE	%	MAR '11	MAR '10	VARIANCE	%
OPERATIONS								
Revenues	$ 8,601	$ 7,489	$ 1,112	15%	$ 8,601	$ 8,014	$ 587	7%
Expenses	7,869	7,854	15	0%	7,869	7,829	40	1%
Excess (deficiency)	$ 732	$ (365)	$ 1,097	301%	$ 732	$ 185	$ 547	296%

Excess revenue from operations increased $0.5 million versus last year, to $0.7 million. Operating results were $1.1 million higher than budgeted. We expected market activity to decline. Instead, market activity was stronger than anticipated and distribution fee revenue, especially fees related to exempt market distributions, increased. We discuss revenues and expenses in more detail below.

QUARTERLY REVENUE

Quarter Ended March 31, 2011

	ACTUAL VERSUS BUDGET				ACTUAL VERSUS LAST YEAR			
(thousands)	MAR '11	BUDGET	VARIANCE	%	MAR '11	MAR '10	VARIANCE	%
OPERATIONS								
Distribution	$ 4,288	$ 3,226	$ 1,062	33%	$ 4,288	$ 3,741	$ 547	15%
Registration	2,339	2,135	204	10%	2,339	2,185	153	7%
Fin. Filing	1,952	1,826	126	7%	1,952	1,951	1	0%
Other	49	90	(41)	-46%	49	57	(8)	-14%
Inv. Income	(27)	212	(239)	-113%	(27)	80	(107)	-134%
	$ 8,601	$ 7,489	$ 1,112	15%	$ 8,601	$ 8,014	$ 587	7%

Quarterly operating revenue was $1.1 million ahead of budget:

- Distribution revenue was $1.1 million higher than expected. We expected mutual fund prospectus and exempt distribution fees to decline over the prior year. Instead, market activity increased. In particular, exempt distribution filings were $0.7 million higher than expected.
- Registration revenue was $0.2 million higher than expected. We expected registrations to remain flat. Instead, registration rule changes resulted in many new registrations.
- Investment income was $0.2 million lower than expected, due to market value adjustments resulting from changes in bond yields late in the quarter.

Quarterly operating revenue increased $0.6 million from the prior year:

- Distribution revenue increased $0.5 million due primarily to higher fees from exempt market distributions (EDER). EDER filing volumes increased 2%, and the average distribution size increased significantly, including $0.2 million higher fees from distributions of pooled funds.
- Registration revenue increased $0.2 million due to registration rule changes.
- Investment income was $0.1 million lower, due to market value adjustments resulting from changes in bond yields during the quarter. The annualized return on average cash and investment balances for the quarter was -0.2% (fiscal 2010 – positive 1.0%).

QUARTERLY EXPENSES

Quarter Ended March 31, 2011

	ACTUAL VERSUS BUDGET				ACTUAL VERSUS LAST YEAR			
(thousands)	MAR. 11	BUDGET	VARIANCE	%	MAR. 11	MAR. 10	VARIANCE	%
OPERATIONS:								
Salaries	$ 5,936	$ 6,002	$ (66)	-1%	$ 5,936	$ 5,971	$ (35)	-1%
Prof. Fees	631	454	177	39%	631	597	34	6%
Deprec.	131	271	(140)	-52%	131	255	(124)	-49%
Occupancy	490	530	(40)	-8%	490	464	26	6%
Info. Mgmt.	245	161	84	52%	245	147	98	67%
Other	436	437	(1)	0%	436	395	41	10%
	$ 7,869	$ 7,854	$ 15	0%	$ 7,869	$ 7,829	$ 40	1%

Quarterly operating expenses were as expected.

- Professional fees were $0.2 million higher than expected primarily due to increased IT project consulting, the timing of internal audits, and higher national project costs.
- Depreciation expense is $0.1 million lower due to a change in amortization period. The estimated economic life of leasehold improvements increased after we extended our space lease.

Quarterly overall operating expenses did not change significantly from the prior year:

- Depreciation expense is $0.1 million lower, due to a change in amortization period.
- Salaries expense increased due to higher staffing levels. The increase was offset by lower incentives expenses and the capitalization of salary costs related to software development projects.

DETAILED ANALYSIS OF FISCAL 2011 OPERATING RESULTS

(See page 35 for Education reserve discussion)

Year Ended March 31, 2011

	ACTUAL VERSUS BUDGET				ACTUAL VERSUS LAST YEAR			
(thousands)	MAR. 11	BUDGET	VARIANCE	%	MAR. 11	MAR. 10	VARIANCE	%
OPERATIONS:								
Revenues	$ 34,406	$ 30,030	$ 4,376	15%	$ 34,406	$ 31,120	$ 3,286	11%
Expenses	30,580	31,090	(510)	-2%	30,580	29,933	646	2%
Excess (deficiency)	$ 3,826	$ (1,060)	$ 4,886	461%	$ 3,826	$ 1,187	$ 2,639	222%

Excess revenue from operations increased $2.6 million versus last year, to $3.8 million. Operating results were $4.9 million higher than budgeted. We expected market activity to decline. Instead, market activity increased, significantly impacting operating results. We discuss revenues and expenses in more detail below.

FISCAL 2011 REVENUE

Year Ended March 31

		ACTUAL VERSUS BUDGET				ACTUAL VERSUS LAST YEAR		
(thousands)	MAR. 11	BUDGET	VARIANCE	%	MAR. 11	MAR. 10	VARIANCE	%
OPERATIONS								
Distribution	$ 17,775	$ 14,520	$ 3,255	22%	$ 17,775	$ 16,249	$ 1,526	9%
Registration	10,605	9,600	1,005	10%	10,605	9,619	986	10%
Fin. Filing	4,861	4,700	161	3%	4,861	4,742	118	2%
Other	231	360	(129)	-36%	231	227	4	2%
Inv. Income	934	850	84	10%	934	283	651	230%
	$ 34,406	$ 30,030	$ 4,376	15%	$ 34,406	$ 31,120	$ 3,286	11%

Annual operating revenue was $4.4 million ahead of budget:

- Distribution revenue was $3.3 million higher than expected. We expected prospectus and exempt distribution fees to decline over the prior year. Instead, exempt distribution revenue increased significantly. Non-mutual fund and mutual fund prospectus activity also increased, rather than declining.
- Registration revenue was $1.0 million higher than expected due to changes in registration requirements.
- Financial filing revenue was $0.2 million higher due to higher than expected growth in reporting issuers.
- Exemptive orders and other revenue was $0.1 million lower than expected. We received fewer than expected exemption applications related to new registration rules.

Annual operating revenue increased $3.3 million from the prior year:

- Distribution revenue was $1.5 million higher due to increased exempt market activity. We received 7% more EDER filings, and reported distributions were larger. In particular, we received significantly higher fees related to pooled investment funds and several large private placements. Mutual fund and non-mutual fund prospectus activity also increased.
- Registration revenue, relating to both firms and individuals, increased $1.0 million due to an increase in the number of registrants caused by registration requirement changes.
- Investment income was $0.7 million higher due to higher fixed income returns. We changed our investment policy in fiscal 2011. It now allows for investment in the bcIMC Canadian Universe Bond Fund. The fund invests in Canadian dollar denominated government and investment-grade corporate debt.
- The annualized return on average cash and investment balances for fiscal 2011 was 3.7% (fiscal 2010 – positive 1.0%).

FISCAL 2011 EXPENSES

Year Ended March 31, 2011

	ACTUAL VERSUS BUDGET				ACTUAL VERSUS LAST YEAR			
(thousands)	MAR. '11	BUDGET	VARIANCE	%	MAR. '11	MAR. '10	VARIANCE	%
OPERATIONS:								
Salaries	$ 23,548	$ 23,686	$ (138)	-1%	$ 23,548	$ 23,066	$ 482	2%
Prof. Fees	2,051	1,817	234	13%	2,051	2,066	(15)	-1%
Deprec.	786	1,083	(297)	-27%	786	1,038	(252)	-24%
Occupancy	1,954	2,117	(163)	-8%	1,954	1,967	(13)	-1%
Info. Mgmt.	788	830	(42)	-5%	788	579	209	36%
Other	1,453	1,557	(104)	-7%	1,453	1,216	237	19%
	$ 30,580	$ 31,090	$ (510)	-2%	$ 30,580	$ 29,933	$ 648	2%

Annual operating expenses were $0.5 million lower than budget:

- Salaries were $0.1 million lower than expected due to a modest, prior year, incentive overaccrual.
- Professional fees were $0.2 million higher than expected primarily due to increased information management and performance measurement consulting fees and higher national project costs.
- Depreciation expense is $0.3 million lower due to a change in amortization period.
- Occupancy costs were $0.2 million lower than expected due to a decline in operating costs and lower repairs and maintenance costs.

Annual operating expenses increased $0.6 million from the prior year:

- Salaries increased $0.5 million over the prior year due to merit increases and increases in our staff complement, partially offset by the capitalization of project-related salary costs and by modestly lower incentive expenses.
- Depreciation expense is $0.3 million lower due to a change in amortization period.
- Information management expenses were $0.2 million higher primarily due to increased software licensing costs.
- Other expenses are $0.2 million higher primarily due to higher staff training costs.

SELECTED QUARTERLY INFORMATION

Historically, operating revenues normally exceed operating expenses in quarters one and three, and operating expenses normally exceed operating revenues in quarters two and four, because of filing patterns.

Improving market activity in fiscal 2010 resulted in operating revenues exceeding operating expenses in all but the third quarter.

Market activity continued to improve in fiscal 2011. Higher distribution, registration, financial filing and investment income revenue streams resulted in operating revenues exceeding operating expenses in all quarters.

Education revenues and disbursements depend on the timing and nature of enforcement actions and education programs, and vary every period.

	FISCAL 2011				FISCAL 2010			
(thousands)	MAR	DEC	SEPT	JUNE	MAR	DEC	SEPT	JUNE
OPERATIONS								
Revenues	$ 8,601	$ 8,242	$ 7,904	$ 9,660	$ 8,014	$ 6,948	$ 7,345	$ 8,812
Expenses	7,869	7,675	7,623	7,413	7,829	7,382	7,304	7,417
Excess (deficiency)	$ 732	$ 567	$ 281	$ 2,247	$ 185	$ (434)	$ 41	$ 1,395
EDUCATION RESERVE								
Revenues	$ 94	$ 263	$ 18	$ 56	$ 32	$ 31	$ 219	$ 7
Disbursements	256	111	171	98	382	215	124	191
Excess (deficiency)	$ (163)	$ 152	$ (153)	$ (42)	$ (350)	$ (184)	$ 95	$ (184)
CONSOLIDATED								
Excess (deficiency)	$ 569	$ 719	$ 128	$ 2,205	$ (165)	$ (618)	$ 136	$ 1,211

EDUCATION RESERVE

Reserve purpose

We use Education reserve funds only to educate securities market participants and the public about investing, financial matters, or the operation and regulation of securities markets.

We fund education projects both directly and in partnership with others. We evaluate each proposed project against criteria that assess a potential partner's background and experience, the need for the project, the project's design and success measures, and the degree to which the project's goals align with our service and operating plans.

Revenue sources

We appropriate enforcement sanction revenue to our Education reserve. We mix Education reserve funds with other funds for investment purposes, so we allocate a portion of investment portfolio income to the Education reserve.

Enforcement sanctions

We order administrative penalties and the return of ill-gotten gains to victims under the *Securities Act*. We also negotiate settlement amounts. Enforcement sanctions, which depend on the timing and nature of enforcement actions, vary significantly between periods. Of the $136.8 million sanctioned since our incorporation on April 1, 1995, $46.6 million relates to disgorgement orders.

We recognize in revenue sanctions we determine are collectible. We then appropriate these revenues to our Education reserve.

Collecting sanctions is difficult because respondents often have limited assets, have poor credit, or have left BC. Since our incorporation in April 1995, we have collected $9.9 million (7%) of $136.8 million sanctioned and pursue outstanding amounts vigorously. However, of the $126.9 million outstanding, only $0.1 million is likely collectible and accrued in our financial statements. About 83% ($113.2 million) of the $136.8 million outstanding relates to four cases.

Investment income

Our prime investment considerations for Education reserve funds are capital preservation and sufficient liquidity to meet education program commitments. Our conservative approach, investing in highly liquid, high quality money market instruments, generates modest returns.

EDUCATION RESERVE REVENUE AND EXPENSE SUMMARY

(thousands)	THREE MONTHS ENDED MARCH 31		YEAR ENDED MARCH 31	
	2011	2010	2011	2010
ENFORCEMENT SANCTIONS				
Current period sanctions	$ 7,332	$ 29	$ 56,933	$ 42,291
Uncollectible portion of sanctions not recognized as revenue	(7,248)	-	(56,548)	(42,037)
Recovery of uncollectible sanctions from prior periods	-	-	5	-
	$ 84	$ 29	$ 390	$ 254
Investment income allocated to education reserve	9	3	41	34
Total revenue appropriated to the education reserve	$ 93	$ 32	$ 431	$ 288
Education reserve disbursements	256	382	636	912
Net change in education reserve	$ (163)	$ (350)	$ (205)	$ (624)
Education reserve ending balance	$ 2,849	$ 3,054	$ 2,849	$ 3,054

Education revenue is volatile and varies from period to period, for the reasons discussed above.

For the quarter, the net education reserve outflows were $0.2 million, $0.1 million more than budgeted and $0.2 million lower than the comparative period due primarily to higher sanction receipts and lower expenses.

For the year, the net education reserve outflow was $0.4 million lower than expected and $0.4 million lower than the prior year, for the reasons noted above. Fiscal 2011 sanctions totalled $57.0 million, primarily from the Sung Wan Kim ($47.1 million) and Luc Castiglioni ($7.3 million) decisions.

FINANCIAL POSITION AND LIQUIDITY

Use of financial instruments

The principal financial instruments affecting our financial condition and results of operations are cash and short-term investments and investments held for designated purposes. Our investments do not expose the BCSC to material credit or market risk because we invest in liquid, high quality money market instruments, government securities and investment-grade corporate debt securities. Liquidity risk is low because our investments are in pooled fund units redeemable within one week and without penalty.

Our investments are exposed to interest rate risk. The fair value of our fixed rate securities will fluctuate with changes in interest rates. Although the short-term nature of our cash and money market investments limits the impact of fair value fluctuations, our longer-term bonds and debentures will have greater interest rate sensitivity. Based on the March 31, 2011 composition of our investment portfolio, an immediate 1% increase in interest rates across the entire yield curve, with all other variables held constant, would result in a decrease in market value of approximately $1.4 million. In addition, future investment income earned on variable rate cash deposits and maturing fixed rate securities would be positively impacted by any interest rate increase. We expect interest rates to increase over the coming year. We manage interest rate risk by monitoring portfolio duration and yields with the fund administrator, bcIMC. Current investment durations for the ST2 Money Market Fund, Short Term Bond Fund and the Canadian Universe Bond Fund are 0.3 of a year, 2.7 years and 6.5 years, respectively.

Liquidity

Cash flow was positive for the year, at $4.8 million (fiscal 2010 - $1.1 million). The cash flow improvement was due primarily to higher distribution revenue, higher registration revenue and higher investment income. Capital purchases increased $0.3 million over the prior year. We ended the year with $41.3 million (fiscal 2010 - $36.5 million) of cash and cash equivalents.

As discussed, our fee model may result in surpluses and deficits over the business cycle because revenues fluctuate while our costs are mainly fixed. We have sufficient liquidity and capital resources to fund operations through a sustained market downturn:

- our cash equivalent assets are redeemable immediately without penalty
- we have working capital of $12.4 million (March 31, 2010 - $8.4 million)
- we can draw on our $15 million fee stabilization reserve if necessary

Assets

Amounts receivable decreased to $0.6 million (fiscal 2010 - $0.7 million) due to a lower balance related to cost recoveries from the Canadian Securities Regulation Regime Transition Office (CSTO) being partly offset by a new HST rebate.

Capital assets were $1.7 million (March 31, 2010 - $1.9 million). The decrease is due to amortization being only partly offset by capital purchases.

Liabilities

Accounts payable and accrued liabilities increased to $0.9 million (March 31, 2010 - $0.7 million) due to the timing of supplier payments.

Accrued salaries increased $0.1 million to $3.0 million (March 31, 2010 - $2.9 million). We paid out fiscal 2010 performance incentives in May 2010 and accrued towards fiscal 2011 performance incentives.

Deferred revenue increased to $7.2 million (March 31, 2010 - $6.7 million). Deferred revenue is calendar year registration fees received in advance and amortized to income over the calendar year to which they relate.

Contractual obligations

Our lease ends November 30, 2021.

Our significant contractual obligations at March 31, 2011 are:

(millions)	TOTAL	<1 YEAR	2 - 3 YEARS	4 - 5 YEARS	>5 YEARS
Rent and operating costs (net of sublease recoveries)	29.3	2.2	5.1	5.3	16.7

RISKS AND OPPORTUNITIES

Securities regulatory reform

The BC government supports the concept of a national regulator. We are engaged in this process and providing resources as necessary. We expect the BCSC to remain a going concern while participating governments consider whether to implement a national regulatory structure.

Fee revenue

We fund operations primarily from filing fees paid by market participants. Fee revenue fluctuates with market activity, rising in strong market conditions and falling in weak market conditions. We have sufficient liquidity and capital resources to fund operations through a sustained market downturn.

Reliance on CDS Inc.

Under various agreements with the CSA that end on October 31, 2012, CDS Inc. (CDS) operates three national electronic filing systems:

- The System for Electronic Document Analysis and Retrieval (SEDAR)
- The System for Electronic Disclosure by Insiders (SEDI)
- The National Registration Database (NRD)

We collect about 90% of our fee revenue through SEDAR and NRD. CDS maintains a comprehensive business continuity plan for each system. However, should CDS become unable or unwilling to continue to operate them, the CSA would have to contract another party to host them.

National electronic filing systems and operating agreements

CDS operates the SEDAR and SEDI national filing systems on behalf of the CSA under agreements with the Alberta Securities Commission, British Columbia Securities Commission, Ontario Securities Commission (OSC), and l'Autorité des marchés financiers, together called the CSA Principal Administrators. CDS operates the NRD national filing system under agreements with the CSA Principal Administrators and the Investment Industry Regulatory Organization of Canada Inc. Under the agreements:

- The CSA Principal Administrators must pay CDS if the SEDAR system budgeted operating costs exceed revenues (shortfall). Our portion of any SEDAR shortfall is limited to 15.4%.
- CDS must pay SEDAR revenues in excess of system budgeted operating costs (surplus) to the CSA Principal Administrators. Any surplus is not divisible; the CSA Principal Administrators own it as a group.
- CDS and the CSA Principal Administrators share actual versus budgeted system operating cost (expense) variances.

The OSC is holding $64.9 million (March 31, 2010 - $49.1 million) in trust, on behalf of the CSA Principal Administrators. The funds are the national filing systems' accumulated surpluses and expenses variances and interest earned on those amounts to March 31, 2011. The CSA Principal Administrators have agreed that we will use these funds only for the benefit of national filing system users through system enhancements or usage fee adjustments.

In fiscal 2010, the CSA began a national project to redevelop the national systems. As at March 31, 2011, expenses related to the systems redevelopment project totalled $660,504.

FUTURE ACCOUNTING CHANGES

The BCSC is a government organization within the British Columbia government reporting entity.

The BCSC is an "other government organization" under Public Sector Accounting Board (PSAB) accounting standards and may follow either PSAB standards or publicly accountable enterprise GAAP. Pursuant to section 23.1 of the *Budget Transparency and Accountability Act*, the Treasury Board has directed the BCSC to adopt Public Sector Accounting Standards in fiscal 2012.

During fiscal 2011, we completed a detailed analysis of PSAB and publicly accountable enterprise GAAP.

We will early-adopt PS 3450 *Financial Instruments* to enable us to continue accounting for short term investments and investments held for designated purposes using fair value.

We identified no other differences between the two accounting standards that could lead to material adjustments in our financial statements. We identified the following balance sheet reclassifications:

1. All separate internally restricted surpluses will be consolidated as "accumulated surplus"
2. Intangible assets, which consists of capitalized software, will be consolidated with "tangible assets"

Financial statement presentation will change to accommodate PSAB disclosure requirements.

We will reflect these accounting and disclosure changes, retroactive to April 1, 2010, in our first financial report following PSAB standards, for fiscal 2012.

SELECTED ANNUAL INFORMATION AND FINANCIAL OUTLOOK

The following table summarizes actual results for the five years ending fiscal 2011, our fiscal 2012 budget, and projected results for fiscals 2013 and 2014. The information below, including forecast information, was prepared using Canadian generally accepted accounting principles.

	AUDITED				AUDITED	BUDGET	PROJECTED	
(millions)	2007	2008	2009	2010	2011	2012	2013	2014
OPERATIONS								
REVENUE								
Regulatory fees	30.5	32.5	30.5	30.8	33.5	33.0	34.7	34.9
Investment income and cost recoveries	1.1	1.3	1.1	0.3	0.9	1.2	1.3	1.3
	31.6	33.8	31.6	31.1	34.4	34.3	35.9	36.2
EXPENSES								
Salaries and benefits	21.2	21.6	22.6	23.1	23.5	25.1	26.3	27.1
Other operating expenses	7.3	6.8	7.2	6.9	7.0	8.2	8.4	8.4
	28.5	28.4	29.8	29.9	30.6	33.3	34.8	35.5
Excess of revenue - operations	**3.1**	**5.4**	**1.8**	**1.2**	**3.8**	**0.9**	**1.2**	**0.7**
EDUCATION RESERVE								
REVENUE								
Enforcement sanctions and investment income	1.5	1.1	0.5	0.3	0.4	0.4	0.4	0.3
Education program disbursements	0.6	0.5	0.7	0.9	0.6	1.0	1.0	1.0
Excess (deficiency) of revenue - education	**0.9**	**0.6**	**(0.2)**	**(0.6)**	**(0.2)**	**(0.6)**	**(0.6)**	**(0.6)**
Consolidated excess of revenue	**4.0**	**6.0**	**1.6**	**0.6**	**3.6**	**0.3**	**0.6**	**-**
ASSETS								
General surplus	3.8	7.2	9.1	10.3	14.1	13.8	13.5	13.7
Fee stabilization reserve	13.0	15.0	15.0	15.0	15.0	15.0	16.5	17.0
Education reserve	3.3	3.9	3.6	3.1	2.8	1.9	1.3	0.7
	20.1	26.1	27.7	28.3	32.0	30.7	31.3	31.4
OTHER INFORMATION								
Debt	-	-	-	-	-	-	-	-

Read the BCSC Service Plan for more information about our Financial Outlook.

MD&A SUPPLEMENT – COMPENSATION DISCLOSURE

FOR THE YEAR ENDED MARCH 31, 2011

COMPENSATION STRUCTURE

We are accountable to the provincial legislature and the public through the Minister of Finance. Our compensation plan requires *Public Sector Employers' Council* approval.

The BCSC manages its compensation through effective internal governance policies (see page 9 for more information) and practices, including as follows:

- Our Audit and Human Resources committees comprise only independent commissioners appointed by the Lieutenant Governor-in-Council
- The Audit Committee oversees the BCSC's annual budget and the Human Resources Committee oversees the design and administration of BCSC performance management and compensation practices
- Semi-annually, the Human Resources Committee reviews the chair's performance against her objectives. In consultation with the chair, the Human Resources Committee reviews the performance of other executives and senior managers
- The Human Resources Committee recommends, for board approval, the chair's incentive compensation for the preceding year and the chair's salary for the ensuing year
- The chair and executive director consult the Human Resources Committee on the incentive compensation and salaries of the other executives and senior managers

We compete with law and accounting firms, the securities industry, and other securities regulators to hire and retain professional staff with securities market expertise.

COMPENSATION PHILOSOPHY

Our goal is median compensation. We strive to offer remuneration comparable to that offered by competing organizations. To remain competitive, we conduct annual salary surveys and propose adjustments when surveyed position salaries are significantly below the median. Like most of our competitors, our compensation plan includes performance-based incentives.

INCENTIVE PRINCIPLES

Employees participate in an incentive plan, following these principles:

- Incentive awards depend on our ability to fund them
- Incentives are based on individual, divisional and commission performance

INCENTIVE TARGETS

Incentive targets vary depending on positions' potential impact on commission performance. Named officers (Chair, Vice Chair, Executive Director, Director of Enforcement, and the Director of Corporate Finance) have incentive targets ranging from 20 – 40%. In addition, a personal achievement factor, ranging from nil to 1.75, is applied. In some cases, total compensation is subject to government compensation maximums.

MD&A SUPPLEMENT – COMPENSATION DISCLOSURE

FOR THE YEAR ENDED MARCH 31, 2011

FISCAL 2011 COMPENSATION SUMMARY

POSITION	NAME	BASE	INCENTIVE	PENSION	OTHER	2011	2010	2009	MEETINGS ATTENDED[2]
EXECUTIVE COMMISSIONERS									
Chair	Brenda M. Leong	378,000	55,578	38,124	27,549	499,251	499,251	388,132	14
Vice Chair	Brent W. Aitken	324,155	104,696	-	14,780	443,631	464,688	417,647	12
SENIOR MANAGEMENT									
Executive Director	Paul Bourque	217,808	60,089	20,314	45,285	343,496	-	-	N/A
Director of Enforcement	Langley E. Evans	204,140	37,627	20,609	11,583	273,959	277,998	262,431	N/A
Director of Corporate Finance	Martin D.C. Eady	193,671	35,450	19,996	12,906	262,023	263,980	245,557	N/A

POSITION	NAME	FEES	OTHER[3]	2011	2010	2009	MEETINGS ATTENDED[2]
INDEPENDENT COMMISSIONERS							
Commissioner	Bradley Doney	52,244	2,054	54,298	67,204	41,968	14
Commissioner	Kenneth G. Hanna	58,550	93	58,643	61,450	70,275	13
Commissioner	Don Rowlatt	49,325	88	49,413	67,259	42,132	12
Commissioner	David J. Smith	56,500	98	56,598	75,650	59,625	14
Commissioner	Shelley C. Williams	56,325	2,136	58,461	67,515	55,842	14
Commissioner	Suzanne K. Wiltshire	55,675	2,012	57,687	66,682	73,209	13

Our Independent Commissioner compensation policy is located on the BCSC website.

COMPENSATION CONSULTANTS

During the year, we hired Western Compensation & Benefits Consultants to perform a salary survey.

1. Other compensation includes long-term disability plan premiums, Canada Pension Plan premiums, transportation allowances, parking and transit, extended health and dental plan premiums, professional membership fees, Medical Services Plan premiums, Employment Insurance premiums, Workers Compensation Plan premiums, group life insurance premiums, accommodation, fitness reimbursements, and imputed interest on interest-free computer purchase loans.
2. During fiscal 2011, the Board scheduled, and held during the year, 12 regular monthly board meetings, 1 SRO meeting, 1 special meeting.
3. Other compensation includes Canada Pension Plan premiums and Workers Compensation Plan premiums.

MANAGEMENT'S RESPONSIBILITY AND CERTIFICATION

Management is responsible for ensuring that the financial statements and other financial information in this annual report are complete and accurate. Management has prepared the financial statements according to Canadian generally accepted accounting principles (GAAP).

We certify that:

- we oversaw the design of internal controls to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP
- we directed the evaluation of the effectiveness of these internal controls over financial reporting (ICFR) and we are not aware of any ICFR gap that has or is likely to materially affect our ICFR
- we have reviewed the financial statements and other information in this annual report (Reports)
- we believe the Reports reflect all material facts for the period they cover
- we do not believe the Reports misstate any material fact

We believe that the financial statements and other financial information in the annual report fairly present in all material respects the financial condition, results of operations and cash flows of the British Columbia Securities Commission (the "BCSC") as of the dates and for the periods presented. The preparation of financial statements necessarily involves the use of estimates, which have been made using careful judgment. It is possible that circumstances will cause actual results to differ. We do not believe it is likely that any differences will be material.

The Board is responsible for establishing prudent rules of business and staff conduct. It is the Commission's policy to maintain the highest standards of ethics in all its activities. The Commission has an employee conduct policy, including conflict of interest rules for employees and commissioners, to achieve those standards.

The Board is also responsible for ensuring that management fulfills its financial reporting and control responsibilities, and has appointed an independent audit committee to oversee the financial reporting process. The committee members are independent commissioners who do not participate in the day-to-day operations of the Commission. The audit committee meets regularly throughout the year with management, the internal auditors and the external auditors to review the:

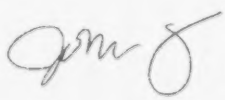
- financial statements,
- adequacy of financial reporting, accounting systems and controls, and
- internal and external audit functions.

The internal auditors are charged with the responsibility of reviewing and evaluating the adequacy of and compliance with the Commission's internal control standards. The internal auditors report the results of their reviews and make recommendations both to management and the audit committee. The external auditor's responsibility is to express an opinion on whether the financial statements, in all material respects, fairly present the commission's financial position, results of operations and cash flows in accordance with accounting principles that are generally accepted in Canada. The internal and external auditors have full and open access to the audit committee, with and without the presence of management.

The audit committee has reviewed these financial statements and has recommended the Board approve them.

The British Columbia Lieutenant Governor in Council has appointed the Auditor General to be the independent auditor of the Commission. The Auditor General has examined the financial statements and his report follows.

BRENDA M. LEONG
Chair and Chief Executive Officer



JOHN R. HINZE, CA
Director, Chief Financial Officer

INDEPENDENT AUDITOR'S REPORT

To the Commissioners of the British Columbia Securities Commission and
To the Deputy Premier and Minister of Finance, Province of British Columbia

Report on the Financial Statements

I have audited the accompanying financial statements of the British Columbia Securities Commission ("the Commission"), which comprise the balance sheet as at March 31, 2011, and the statements of operations and comprehensive income, of surpluses and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines, is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the British Columbia Securities Commission as at March 31, 2011, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Victoria, British Columbia
May 19, 2011

John Doyle, MAcc, CA
Auditor General

BALANCE SHEET

At March 31, 2011 (audited)
British Columbia Securities Commission

	MARCH 31, 2011	MARCH 31, 2010
ASSETS		
Current assets:		
Cash and short term investments (note 4)	$ 23,488,544	$ 18,490,586
Amounts receivable (note 5)	562,610	734,239
Prepaid expenses (note 6)	323,921	367,613
	24,375,075	19,592,438
Investments held for designated purposes (note 7)	17,848,933	18,053,831
Capital assets (note 8)		
Tangible assets	1,198,977	1,588,951
Intangible assets	518,351	316,820
	1,717,328	1,905,771
	$ 43,941,336	$ 39,552,040
LIABILITIES		
Current liabilities:		
Accounts payable and accrued liabilities	$ 939,216	$ 711,337
Accrued salaries	2,974,497	2,909,267
Deferred registration fee revenue	7,207,796	6,701,449
Employee leave liability (note 9)	846,615	853,821
	11,968,124	11,175,874
Deferred rent	16,311	40,778
SURPLUSES		
General	14,107,969	10,281,557
Fee stabilization reserve (note 11)	15,000,000	15,000,000
Education reserve (note 11)	2,848,932	3,053,831
	31,956,901	28,335,388
	$ 43,941,336	$ 39,552,040

Going concern basis of accounting (Note 1)
Commitments and contingencies (Note 16)

The accompanying notes are an integral part of these financial statements

Approved by the Board:

BRENDA M. LEONG
Chair and Chief Executive Officer

DAVID J. SMITH
Chair, Audit Committee

STATEMENT OF OPERATIONS AND COMPREHENSIVE INCOME

For the year ended March 31, 2011 (audited)
British Columbia Securities Commission

YEAR ENDED	MARCH 31, 2011	MARCH 31, 2010
REVENUES		
Regulatory fees		
Prospectus and other distributions	$ 17,775,056	$ 16,249,208
Registration	10,604,904	9,618,920
Financial filings	4,860,902	4,742,439
Exemptive orders and other	231,529	225,487
Enforcement sanctions (note 13)	390,200	254,212
Enforcement cost recoveries	—	1,555
Investment income (note 10)	974,646	316,668
	$ 34,837,237	$ 31,408,489
EXPENSES		
Salaries and benefits (note 15)	$ 23,547,795	$ 23,066,045
Professional services	2,051,160	2,066,288
Occupancy	1,953,892	1,967,381
Depreciation	786,230	1,038,372
Information management	788,023	579,335
Education reserve (note 11)	636,033	911,580
External communications	209,418	175,158
Administration	410,048	354,773
Staff training	417,876	289,939
Business travel	301,545	269,741
Telecommunications	113,704	126,240
	$ 31,215,724	$ 30,844,852
EXCESS OF REVENUES AND COMPREHENSIVE INCOME	$ 3,621,513	$ 563,637

Going concern basis of accounting (Note 1)

The accompanying notes are an integral part of these financial statements.

STATEMENT OF SURPLUSES

For the year ended March 31, 2011 (audited)
British Columbia Securities Commission

	GENERAL	FEE STABILIZATION RESERVE (NOTE 11)	EDUCATION RESERVE (NOTE 11)	TOTAL
BALANCE, MARCH 31, 2009	$ 9,094,363	$ 15,000,000	$ 3,677,388	$ 27,771,751
Excess of revenues	563,637	-	-	563,637
Appropriation during the year	623,557	-	(623,557)	-
BALANCE, MARCH 31, 2010	$ 10,281,557	$ 15,000,000	$ 3,053,831	$ 28,335,388
Excess of revenues	3,621,513	-	-	3,621,513
Appropriation during the year	204,899	-	(204,899)	-
BALANCE, MARCH 31, 2011	$ 14,107,969	$ 15,000,000	$ 2,848,932	$ 31,956,901

The accompanying notes are an integral part of these financial statements.

STATEMENT OF CASH FLOWS

For the year ended March 31, 2011 (audited)
British Columbia Securities Commission

YEAR ENDED	MARCH 31, 2011	MARCH 31, 2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash receipts from fees	$ 34,038,321	$ 30,709,671
Cash receipts from enforcement sanctions	414,798	240,907
Cash paid to and on behalf of employees	(23,304,777)	(22,928,217)
Cash paid to suppliers and others	(6,732,131)	(6,942,891)
Investment income received	974,646	326,668
	$ 5,390,857	$ 1,406,138
CASH FLOWS USED FOR INVESTING ACTIVITIES		
Paid for capital assets	(597,797)	(263,269)
Net increase in cash and cash equivalents	$ 4,793,060	$ 1,142,869
Cash and cash equivalents, beginning of year	36,544,417	35,401,548
Cash and cash equivalents, end of year	$ 41,337,477	$ 36,544,417
Represented by:		
Cash and short term investments	$ 23,488,544	$ 18,490,586
Investments held for designated purposes	17,848,933	18,053,831
	$ 41,337,477	$ 36,544,417

The accompanying notes are an integral part of these financial statements.

1. NATURE OF OPERATIONS AND GOING CONCERN

The British Columbia Securities Commission (BCSC) is a Crown corporation created by the Province of British Columbia on April 1, 1995. We are responsible for the administration of the *Securities Act*. As a crown corporation, the BCSC is exempt from income taxes. We pay Harmonized Sales Tax (HST) and receive a 100% rebate.

We have prepared these financial statements on a going concern basis, which contemplates the realization of assets and settlement of liabilities in the normal course of business as they come due. Our government continues to support the concept of a national regulator. We expect the BCSC to remain a going concern while participating governments consider and perhaps implement a different regulatory structure.

2. SIGNIFICANT ACCOUNTING POLICIES

Management has prepared these financial statements according to Canadian generally accepted accounting principles that are applicable to publicly accountable enterprises. Significant accounting policies followed in the preparation of these financial statements are:

a) Short term and designated investments

Under the BC *Securities Act*, we must invest any money that we receive, but do not immediately need, in investment pools that the British Columbia Investment Management Corporation (bcIMC), a BC government organization, administers. We buy units in pooled investment funds that invest primarily in:

- Canadian Money Market Fund (ST2)
  Canadian money market investments maturing within 15 months, and
- Short-Term Bond Fund
  Canadian federal and provincial government bonds and Canadian dollar fixed income securities maturing within five years and insured or guaranteed by sovereign governments and supranational debt securities, and
- Canadian Universe Bond Fund
  Canadian federal and provincial government bonds, Canadian dollar fixed income securities insured or guaranteed by sovereign governments, and investment-grade corporate debt securities, all maturing within 30 years.

Any earnings from our investments are reinvested in the portfolio and returns adjust the carrying value of the units we own.

We consider the fair value of our short-term investments and investments held for designated purposes to be market value because we can liquidate these investments quickly and without penalty. Fair value is the amount that would be agreed upon by two unrelated parties to a transaction who have full knowledge of all relevant facts and who are under no obligation to act. See note 3 for more information about our financial instruments.

b) Capital assets

We record our capital assets at cost. We depreciate them using the straight-line method over their useful lives.

We estimate the useful lives of our assets to be as follows:

Tangible

- Information technology assets – four years
- Leasehold improvements – the remaining lease term to November 30, 2021
- Office furniture and equipment – ten years

Intangible

- Software and development costs – four years

On September 30, 2010, we extended our premise lease for an additional ten years. Effective October 1, 2010, the amortization period for leaseholds changed to reflect the new lease term ending November 30, 2021

2. SIGNIFICANT ACCOUNTING POLICIES (CON'T)

c) Revenue

We accrue prospectus and other statutory filing fees when filings are made and collectibility is assured. The amounts due and their collectibility are normally determined simultaneously, as most filings are paid for immediately.

Registration fees are paid to us in advance. We defer registration fees and recognize them in revenue over the calendar year to which they relate.

We recognize enforcement sanctions when we determine they are collectible.

d) Estimates

Canadian generally accepted accounting principles require management to make estimates and assumptions for certain amounts disclosed in the financial statements.

In our financial statements, management has estimated the:

- portion of amounts receivable that we will collect
- useful lives of capital assets
- value of the employee leave liability

Results may differ from these estimates.

e) Future accounting changes

The BCSC is a government organization within the British Columbia government reporting entity.

The BCSC is an "other government organization" under Public Sector Accounting Board (PSAB) accounting standards and may follow either PSAB standards or publicly accountable enterprise GAAP. Pursuant to section 23.1 of the *Budget Transparency and Accountability Act*, the Treasury Board has directed the BCSC to adopt Public Sector Accounting Standards in fiscal 2012.

During fiscal 2011, we completed a detailed analysis of PSAB and publicly accountable enterprise GAAP.

We will early-adopt PS 3450 Financial Instruments to enable us to continue accounting for short term investments and investments held for designated purposes using fair value.

We identified no other differences between the two accounting standards that could lead to material adjustments in our financial statements. We identified the following balance sheet reclassifications:

1. All separate internally restricted surpluses will be consolidated as "accumulated surplus"
2. Intangible assets, which consists of capitalized software, will be consolidated with "tangible assets"

Financial statement presentation will change to accommodate PSAB disclosure requirements.

We will reflect these accounting and disclosure changes, retroactive to April 1, 2010, in our first financial report following PSAB standards, for fiscal 2012.

3. FINANCIAL INSTRUMENTS

Our financial instruments include cash and short term investments, amounts receivable, investments held for designated purposes, accounts payable and accrued liabilities, accrued salaries and employee leave liability.

We categorize our cash and short-term investments and investments held for designated purposes as "held-for-trading". We categorize amounts receivable as "loans and receivables", and accounts payable and accrued liabilities, accrued salaries and employee leave liability as "other financial liabilities".

We report financial instruments categorized as "held-for-trading" at fair value (fair value measurement hierarchy level one - quoted market prices) in our balance sheet and recognize any gains and losses in net income for the related period. We record financial instruments categorized as "loans and receivables" and "other financial liabilities" at cost (fair value measurement hierarchy level three - not based on observable market data), which approximates fair value, and recognize gains and losses on these financial instruments in income for the related period.

In management's opinion, amounts receivable, accounts payable and accrued liabilities, accrued salaries, and employee leave liability do not expose us to significant financial risk because of their small size and short-term nature. Our use of financial instruments in our investment portfolio exposes us to the following material risks:

- *credit risk*—the possibility that an underlying issuer will default, by failing to repay principal and interest in a timely manner
- *liquidity risk*—the possibility that we will not be able to sell our investments when we want to
- *market risk*—the possibility that our investments may decline over time because of economic changes or other events that affect large portions of the market
- *interest rate risk*—the possibility that the value of our investments and the related investment returns will fluctuate over time because of interest rate changes

In management's opinion, our investments do not expose the BCSC to significant credit or material market risk because we invest in liquid, high quality money market instruments, government securities and investment-grade corporate debt securities. Liquidity risk is low because our investments are in pooled fund units redeemable within one week and without penalty. The underlying assets in the pool are also highly liquid.

Our investments are exposed to interest rate risk. The fair value of our fixed rate securities will fluctuate with changes in interest rates. Although the short-term nature of our cash and money market investments limits the impact of fair value fluctuations, our longer-term bonds and debentures will have greater interest rate sensitivity. Based on the March 31, 2011 composition of our investment portfolio, an immediate 1% increase in interest rates across the entire yield curve, with all other variables held constant, would result in a decrease in market value of approximately $1.4 million. In addition, future investment income earned on variable rate cash deposits and maturing fixed rate securities would be positively impacted by any interest rate increase. We expect interest rates to increase over the coming year. We manage interest rate risk by monitoring portfolio duration and yields with the fund administrator, bcIMC. Current investment durations for the ST2 Money Market Fund, Short Term Bond Fund and the Canadian Universe Bond Fund are 0.3 of a year, 2.7 years and 6.5 years, respectively.

4. CASH AND SHORT-TERM INVESTMENTS

Cash and short-term investments are carried at fair value, and consist of:

	MARCH 31, 2011		MARCH 31, 2010	
	UNITS	MARKET VALUE	UNITS	MARKET VALUE
Cash	-	$ 16,455,733	-	$ 11,058,703
Short-Term Bond Fund	-	-	3.32	7,431,883
Canadian Universe Bond Fund	5.28	7,032,811	-	-
		$ 23,488,544		$ 18,490,586

5. AMOUNTS RECEIVABLE

Amounts receivable consist of:

	MARCH 31, 2011	MARCH 31, 2010
Enforcement sanctions	$ 83,782	$ 126,380
Late insider report filing fees	250,000	261,360
Due from CSTO (a)	106,637	299,679
National project recoveries	—	5,216
Harmonized sales tax (HST)	89,482	-
Employee advances and other	32,709	41,604
	$ 562,610	$ 734,239

(a) The BCSC seconded employees to, and provides technology and accounting support to, the Canadian Securities Regulatory Regime Transition Office (CSTO) on a cost recovery basis. The balance reflects costs receivable from the CSTO as at March 31, 2011.

6. PREPAID EXPENSES

Prepaid expenses consist of:

	MARCH 31, 2011	MARCH 31, 2010
IIROC registration processing fees	$ 278,212	$ 270,621
Information technology maintenance contracts	45,709	96,992
	$ 323,921	$ 367,613

7. INVESTMENTS HELD FOR DESIGNATED PURPOSES

Investments held for designated purposes are carried at fair value, and consist of:

	MARCH 31, 2011		MARCH 31, 2010	
	UNITS	MARKET VALUE	UNITS	MARKET VALUE
Pooled Canadian Money Market Fund ST2	0.87	$ 3,285,237	0.94	$ 3,508,231
Short-Term Bond Fund	-	-	6.51	14,545,600
Canadian Universe Bond Fund	10.93	14,563,696	-	-
		$ 17,848,933		$ 18,053,831

8. CAPITAL ASSETS

Capital assets consist of:

			MARCH 31, 2011	MARCH 31, 2010
	COST	ACCUMULATED DEPRECIATION	NET BOOK VALUE	NET BOOK VALUE
Tangible:				
Leasehold improvements	$ 4,115,892	$ 3,660,780	$ 455,112	$ 669,420
Office furniture	2,061,326	1,904,254	157,072	301,487
Office equipment	459,841	391,637	68,204	79,537
Information technology	1,526,185	1,007,596	518,589	538,507
	$ 8,163,244	$ 6,964,267	$ 1,198,977	$ 1,588,951
Intangible:				
Software	965,053	446,702	518,351	316,820
	$ 9,128,297	$ 7,410,969	$ 1,717,328	$ 1,905,771

During the period, additions to intangible assets totalled $315,680 (fiscal 2010 - $212,496) and intangible asset amortization totalled $114,149 (fiscal 2010 - $112,794).

9. EMPLOYEE LEAVE LIABILITY

Employee leave liability is what we owe to our employees for their accumulated vacation time and other leave entitlements not yet taken.

10. INVESTMENT INCOME

The investment income related to financial assets is as follows:

	FOR THE YEAR ENDED MARCH 31, 2011			FOR THE YEAR ENDED MARCH 31, 2010		
	AVERAGE BALANCE	INVESTMENT INCOME	ANNUALIZED RETURN	AVERAGE BALANCE	INVESTMENT INCOME	ANNUALIZED RETURN
Cash	$ 10,442,490	$ 78,632	0.75%	$ 8,070,264	$ 29,818	0.37%
Pooled Canadian Money Market Fund (ST2)	3,347,723	43,524	1.30%	9,057,395	51,625	0.57%
Short-Term Bond Fund	6,790,136	382,194	5.63%	18,418,896	235,224	1.28%
Canadian Universe Bond Fund	15,058,913	470,296	3.12%	-	-	-
	$ 35,639,262	$ 974,646	3.65%	$ 35,546,555	$ 316,668	0.89%

Investment income is net of management fees and a portion is allocated to the Education reserve.

11 RESERVES

	FEE STABILIZATION (a)	EDUCATION (b)	TOTAL
BALANCE, MARCH 31, 2009	$ 15,000,000	$ 3,677,388	$ 18,677,388
Additions and appropriations	-	254,212	254,212
Investment income allocation	-	33,811	33,811
Disbursements	-	(911,580)	(911,580)
BALANCE, MARCH 31, 2010	$ 15,000,000	$ 3,053,831	$ 18,053,831
Additions and appropriations	-	390,200	390,200
Investment income allocation	-	40,934	40,934
Disbursements	-	(636,033)	(636,033)
BALANCE, MARCH 31, 2011	$ 15,000,000	$ 2,848,932	$ 17,848,932

a) Fee stabilization reserve

We appropriate amounts from our general surplus to the fee stabilization reserve so temporary revenue reductions will not immediately impair our ability to operate, or require immediate fee increases.

b) Education reserve

We order administrative penalties and disgorgements under the *Securities Act*. We also negotiate settlement amounts. We appropriate revenue from penalties, settlements, and unclaimed disgorgements to our Education reserve, which we spend only to educate securities market participants and the public about investing, financial matters or the operation or regulation of securities markets. We mix Education reserve funds with our other funds for investment purposes, so we allocate a portion of our investment income to the Education reserve.

12 CAPITAL MANAGEMENT

Our capital management objective is to safeguard our ability to protect investors and foster fair and efficient markets. In order to maintain sufficient capital, we monitor our fee structure and may propose fee changes to government to ensure we break even over the business cycle. In addition, we maintain a fee stabilization reserve of between 37.5% and 62.5% of prior year operating expenses. We also manage our expenses so that they do not exceed expected revenue over the business cycle. We do this by:

- Preparing an annual budget approved by the Board
- Monthly budget variance reporting to management
- Requiring Board approval for significant unbudgeted expenses
- Continually improving the efficiency of our processes

Our capital is comprised of cash and short-term investments and investments held for designated purposes. We invest our capital conservatively in highly liquid, high quality, money market instruments, government bonds, and investment-grade corporate debt securities to ensure capital preservation.

13. ENFORCEMENT SANCTIONS

Enforcement sanctions include administrative penalties, settlements and unclaimed disgorgements. Revenues depend on the timing of enforcement actions completed during the year and on our ability to collect assessed amounts.

We assessed enforcement sanctions of $57.0 million (fiscal 2010 - $42.3 million) during the period, of which we did not recognize $56.6 million (fiscal 2010 - $42.0 million) as revenue because we do not expect to receive payment.

Collecting enforcement sanctions can be difficult because respondents often have limited assets, poor credit or have left British Columbia. We pursue outstanding amounts vigorously and indefinitely.

14. RELATED PARTY TRANSACTIONS

We are related through common ownership to all BC provincial government ministries, agencies and Crown corporations. We conducted all transactions with these entities as though we were unrelated parties.

15. POST-RETIREMENT EMPLOYEE BENEFITS

We, and our employees, contribute to the Public Service Pension Plan, a multi-employer plan. The plan is contributory, and its basic benefits are defined. The plan has about 57,000 active members and approximately 36,000 retired members. A board of trustees, representing plan members and employers, is responsible for overseeing the management of the plan, including investment of assets and administration of benefits.

An actuarial valuation of the plan performed every three years assesses the plan's financial position. The latest valuation, as at March 31, 2008, indicated a $487 million surplus for basic pension benefits. In addition to basic benefits, the plan also provides supplementary benefits, including inflation indexing. These supplementary benefits are paid only to the extent that they have been funded, which is currently done on a "pay-as-you-go" basis.

The plan trustees monitor the impact of the financial environment on plan health. Plan surpluses and deficits are not attributable to individual employers, but affect future contribution levels. We charged $1,655,269 to expense for employer contributions during the period (fiscal 2010 - $1,570,855).

16. COMMITMENTS AND CONTINGENCIES

a) Office lease

Our lease ends November 30, 2021. Our current annual rent, net of sublease recoveries is approximately $925,000.

Our approximate annual rent over the remaining lease term is as follows:

December 1, 2011 - November 30, 2013	$ 1,390,000 per year
December 1, 2013 - November 30, 2015	$ 1,455,000 per year
December 1, 2015 - November 30, 2017	$ 1,540,000 per year
December 1, 2017 - November 30, 2019	$ 1,620,000 per year
December 1, 2019 - November 30, 2021	$ 1,700,000 per year

We also pay our share of building operating and maintenance costs.

b) National electronic filing systems and operating agreements

Under various agreements with the Canadian Securities Administrators (CSA), CDS Inc. (CDS) operates three national electronic filing systems:

- The System for Electronic Document Analysis and Retrieval (SEDAR)
- The System for Electronic Disclosure by Insiders (SEDI)
- The National Registration Database (NRD)

We collect about 90% of our fee revenue through SEDAR and NRD. Should CDS become unable or unwilling to continue to operate them, the CSA would have to contract another party to host them.

CDS operates the SEDAR and SEDI national filing systems on behalf of the CSA under agreements with the Alberta Securities Commission, British Columbia Securities Commission, Ontario Securities Commission (OSC), and l'Autorité des marchés financiers, together called the CSA Principal Administrators. CDS operates the NRD national filing system under agreements with the CSA Principal Administrators and the Investment Industry Regulatory Organization of Canada Inc. Under the agreements:

- The CSA Principal Administrators must pay CDS if the SEDAR system budgeted operating costs exceed revenues (shortfall). Our portion of any SEDAR shortfall is limited to 15.4%.
- CDS must pay SEDAR revenues in excess of system budgeted operating costs (surplus) to the CSA Principal Administrators. Any surplus is not divisible; the CSA Principal Administrators own it as a group.
- CDS and the CSA Principal Administrators share actual versus budgeted system operating cost (expense) variances.

The OSC is holding $64.9 million (March 31, 2010 - $49.1 million) in trust, on behalf of the CSA Principal Administrators. The funds are the national filing systems' accumulated surpluses and expenses variances and interest earned on those amounts to March 31, 2011. The CSA Principal Administrators have agreed that we will use these funds only for the benefit of national filing system users through system enhancements or usage fee adjustments.

In fiscal 2010, the CSA began a national project to redevelop the national systems. As at March 31, 2011, expenses related to the systems redevelopment project totalled $660,504.

c) Legal actions

We are involved in legal actions arising from the operation of our business. The outcome and ultimate disposition of these actions are not yet determinable. We do not expect the outcome of any of these proceedings, individually or in total, to have a material impact on our financial position.

ENFORCEMENT AND EDUCATION FUND REPORTS

ENFORCEMENT REPORT

Market misconduct, including investment fraud, poses a significant risk to the integrity of BC's capital markets. A credible enforcement program is a powerful tool to ensure compliance, and deter inappropriate and illegal market conduct, and sends a strong message to the market and public.

Effective enforcement requires knowledgeable professionals who can detect and respond to misconduct that affects local and national capital markets.

PROTECTING INVESTORS AND MARKET INTEGRITY

Our Enforcement division utilizes all of the regulatory tools at its disposal to protect investors who might fall victim to fraud or other abusive activity. We aim to detect misconduct early, disrupt and stop the activity, and then pursue it vigorously to deter future harm to investors and the capital markets. We look for opportunities throughout the life of the case to freeze assets to ensure, whenever possible, that there are funds available for distribution to the victims of the misconduct. We collaborate with the Civil Forfeiture Office to ensure an efficient distribution.

BCSC staff investigate complaints of market misconduct, and the executive director can take early, decisive action by issuing temporary enforcement orders to intervene and stop ongoing misconduct.

After an investigation, there are two paths for cases to take:

- The executive director can bring cases before Commission panels at an administrative hearing. Commission panels have broad powers under the *Securities Act* to take action against misconduct, including ordering market bans, administrative penalties, and the disgorgement of ill-gotten gains.
- The BCSC's criminal investigation team can investigate and refer cases to Crown Counsel for prosecution in Court. The Court can then impose penalties, including jail terms and fines, and *Securities Act* sanctions.

MORE EFFICIENT ENFORCEMENT PROCESSES

This year, our Enforcement division made two changes in process that led to significant productivity improvements:

1. Litigation branch lawyers work with investigators early in a file. This team approach leads to better and quicker analysis of the merits of a case. With the input of both an investigator and a lawyer at an early stage, we can better refine the focus and investigative approach for each case.
2. Through the life of a file, from complaint to conclusion, Enforcement staff continuously apply a cost-benefit test to all investigative steps. This leads to expedited and more efficient outcomes, and reduces the chance of over-analysis or over-investigation.

In the past year, these process changes have led to a 100% increase in the number of notices of hearing.

COLLABORATIVE ENFORCEMENT

We work with securities regulators in other jurisdictions to enforce their orders, share information, and conduct investigations.

During the year, we received 18 formal requests for assistance from US federal and state authorities, including the US Securities and Exchange Commission (SEC) and the US Commodity Futures Trading Commission (CFTC). We extended seven formal requests for assistance to the SEC and CFTC, and four formal requests to the UK Financial Services Authority and other foreign authorities. We also assisted the Hong Kong Securities and Futures Commission with three registration reviews.

Our criminal investigation team collaborates with Crown Counsel and the police to pursue criminal prosecutions. We also work with enforcement agencies and financial institutions to raise awareness of investment fraud. Our work aims to encourage early reporting of investment fraud, and deter misconduct that can harm investors and our capital markets.

CROSS-DIVISIONAL INITIATIVES

Enforcement staff work with staff in the Corporate Finance division and Capital Markets Regulation division. The compliance branch in the Corporate Finance division referred 13 cases to Enforcement in fiscal 2011. Capital Markets compliance staff referred two cases to Enforcement. Out of these 15 cases, two resulted in notices of hearing being issued, two led to multiple settlements, and four are still being investigated.

Staff in Corporate Finance and Capital Markets Regulation can also issue their own production orders and, in the case of Corporate Finance, issue halt trade orders and cease trade orders.

FISCAL YEAR	2009	2010	2011
Production orders - Compliance	55	47	122
Halt trade orders - Compliance	1	3	6
Cease trade orders - Compliance	92	102	52

Production orders are up over 165% from fiscal 2010 due to more investigations of abuses among OTC issuers, and a new focus on finding information about companies using the exempt market. Halt trade orders are also up due to third party promotions of OTC Bulletin Board and Pink Sheet companies. Cease trade orders for compliance failures are down significantly now that companies are complying with BC Instrument 51-509 *Issuers Quoted in the U.S. Over-the-Counter Markets*. When BCI 51-509 was introduced in fiscal 2009, it led to a sharp increase in CTOs in fiscal 2009 and fiscal 2010.

Awareness and education can help detect, stop, and prevent investment fraud. The Enforcement division continues to play an active role in the BCSC's InvestRight program. Enforcement staff participate in delivering investment fraud awareness courses to police, and take part in our province-wide education seminars. They also work with Communications & Education staff to issue public warnings through InvestRight Investor Watches and Investor Alerts about possible fraudulent investment schemes or unsuitable investments. BCSC staff also communicate through the news media, social media sites on the Internet, and face-to-face seminars to increase fraud awareness and reporting.

HOW THE BCSC HANDLES ENFORCEMENT CASES

1

THE ENFORCEMENT PROCESS STARTS WITH A

- complaint from the public or securities industry participant
- referral from another agency
- referral from BCSC staff

2

THE BCSC'S INTELLIGENCE AND ASSESSMENT BRANCH REVIEWS COMPLAINTS OR REFERRALS, AND CAN THEN

- close the file with a caution letter
- refer it to another agency, including a law enforcement unit
- refer it to the Communications & Education division to issue an Investor Alert
- refer it to our regulatory investigation team, criminal investigation team, or litigation branch
- refer it to the Capital Markets Regulation division or Corporate Finance division if it involves complaints against a registrant or public company

3

AFTER INVESTIGATING A CASE, THE REGULATORY INVESTIGATION TEAM CAN

- close the file with a caution letter
- refer it to the litigation branch
- negotiate a settlement

4

THE LITIGATION BRANCH REVIEWS CASES RECEIVED FROM THE INTELLIGENCE AND ASSESSMENT BRANCH, THE REGULATORY INVESTIGATION TEAM, CAPITAL MARKETS REGULATION DIVISION, OR CORPORATE FINANCE DIVISION, AND CAN

- intervene using a temporary order, when appropriate
- pursue it through a hearing before a panel of BCSC commissioners
- negotiate a settlement

5

AFTER INVESTIGATING A CASE, THE CRIMINAL INVESTIGATION TEAM CAN

- refer it to Crown Counsel, if the evidence supports a criminal charge
- refer it to our regulatory investigation team, if the evidence does not support a criminal charge

In steps 2–5, the BCSC can close the file without action if there is insufficient evidence or it is not in the public interest to pursue it.

ENFORCEMENT ACTIVITY APRIL 1, 2010 – MARCH 31, 2011

WE HANDLED 141 NEW CASES LAST YEAR. MANY OF THESE REPRESENTED MULTIPLE VIOLATIONS, INCLUDING:

- 74 related to unregistered activity
- 58 related to illegal sales of securities
- 34 related to fraud
- 13 related to registrant misconduct
- 52 related to director and officer misconduct
- 44 involved misrepresentations
- 21 related to insider trading
- 28 involved civil disputes outside our mandate
- 17 involved market manipulation allegations
- 6 related to breaches of order
- 8 involved disclosure violations

ENFORCEMENT ACTIVITY FOR LAST THREE YEARS[1]

FISCAL YEAR	2009	2010	2011
New enforcement cases handled	137	177	141
Production orders – Enforcement	231	338	429[2]
Freeze orders	7	6	7
Assets frozen (at year-end)[3]	Unavailable	Unavailable	$ 8.37 million[4]
Assets returned to investors, provided to Civil Forfeiture Office, to receiver or to bankruptcy trustee	$ 16.2 million[5]	$ 3.28 million[5]	$ 3.47 million[5]

1. *The number of new cases, the amount of assets frozen and the amount of assets returned to investors or provided to other agencies for investors depend on a variety of external factors, and thus vary significantly from year to year.*
2. *The number of production orders increased by 86% since 2009 due to the increased staff review of market-related trading matters and other changes to enforcement processes.*
3. *This is a new measure in fiscal 2010. We did not record the amount of money frozen at the end of fiscal 2009 or fiscal 2010.*
4. *This is an estimated value for assets frozen at year-end. The money came from five cases. Not all assets were in the form of cash, so the actual value of frozen assets may differ because of market conditions and other valuation factors.*
5. *Money for fiscal 2009 came from one case, for fiscal 2010 from three cases, and for fiscal 2011 from nine cases.*

HEARING RELATED ACTIVITY FOR LAST THREE YEARS

The BCSC began fiscal 2011 with 13 notices of hearing outstanding. At year-end, there were 21 notices of hearing outstanding.

HEARING RELATED ACTIVITY FOR LAST THREE YEARS

FISCAL YEAR	2009	2010	2011
New notices of hearing	7	10	21[1]
Temporary orders	1	7	3
Liability decisions	3	2	3
Sanction decisions (reciprocal orders)	41 (38)	37 (33)	44 (37)
Settlement agreements	14	14	13

1. *Notices of hearing have increased by just over 100% due to new processes in Enforcement.*

ENFORCEMENT HIGHLIGHTS

We post all notices of hearing, decisions, and settlements in the Enforcement section of our website, where they are searchable by name and keyword. The CSA 2010 Enforcement Report discusses BC settlements and hearing decisions. You can link to the report here or obtain it on the BCSC website in the publications section.

Investor Alerts and temporary orders

We use Investor Alerts and temporary orders to try to disrupt, stop, and prevent illegal investment activities.

Investor Alert—Re-victimization schemes

After becoming aware of Featherstone and Bellman Equity Exchange Group (FAB) contacting investors in York-Rio Resources, the BCSC partnered with the Manitoba Securities Commission in September 2010 to issue an Investor Alert warning investors that they could be targets of a "recovery room" investment scheme. In this type of scheme, the perpetrator offers inflated prices for cease-traded shares but requires investors to send an advance fee payment, often to an offshore account, before their securities can be sold. The perpetrators then withdraw the money for their own use, and investors lose money a second time.

The Investor Alert reminded York-Rio investors that there had been a similar approach in September 2009, and urged anyone contacted with a similar offer to report it to the securities commission. Staff added FAB to the Investment Caution List. The Investor Alert received many hits on our InvestRight website, and there were several media stories about it as well.

Temporary Order—Orion Advisory Services S.A. and IntelliSource Markets B.V. (a.k.a. IS Markets)

BCSC staff received an anonymous tip that Orion Advisory Services, S.A. and IntelliSource Markets B.V. (IS Markets) were targeting Canadian and UK investors, eight of whom lived in BC. On May 6, 2010, the executive director stopped Orion and IS Markets from selling securities and engaging in investor relations activities until a hearing was held. Orion and IS Markets were placed on the BCSC's Investment Caution list. BCSC staff also alerted investors through the InvestRight *Let's Talk About Investing* blog.

Between 2008 and 2010, representatives of Orion cold-called BC residents, and solicited them to open a trading account with IS Markets to trade commodity options. Some BC residents opened accounts, and wired funds to a bank in the Netherlands. Orion purported to act as the introducing broker for IS Markets.

On June 16, 2010, a BCSC panel found that Orion and IS Markets had traded securities without being registered, and put unreasonable pressure on BC residents to purchase the securities they were promoting. The Commission banned Orion and IS Markets from BC's capital markets until they become registered in British Columbia. Neither Orion nor IS Markets attended the hearing, but IS Markets sent in a statement of its position.

Temporary Order—Kunekt Corporation

On two occasions in February and March 2011, the executive director halted trading of Kunekt Corporation securities because of unusual trading volume and pricing of the issuer's shares.

A few days after the last halt, the executive director issued a temporary order and notice of hearing against Kunekt Corporation and one of its directors, Mark Bruk. The temporary order bans all BC trading of the securities of Kunekt Corporation, until Kunekt and Bruk comply with orders to produce documents, and Kunekt generally discloses to the public the extent to which Kunekt and its directors, officers, and insiders were involved in or had knowledge of the Internet promotion.

The notice of hearing alleges that promotional material about Kunekt Corporation was disseminated on the Internet in January and February 2011, which included claims that the company could provide profits of over 5,000 percent in approximately six months.

In April 2011, after a hearing, a commission panel denied an application to have the temporary order lifted. The panel indicated it would reconsider its decision if the company and each of its directors, officers, and insiders swear they were not involved with the Internet promotion.

The allegations in the notice of hearing have not been proven.

CRIMINAL CASES

Following a successful pilot project, the BCSC confirmed the creation of a criminal investigation team in January 2011. The team has a manager and three investigators who are each appointed as a provincial special constable, as well as an administrative assistant. The team's goal is to target individuals for whom administrative sanctions alone are not considered a deterrent. The team's work has led to the arrest of a number of individuals who have been charged with various offences.

From April 1, 2010 to March 31, 2011, the team has referred six cases to Crown Counsel. Of those cases, three have received charge approval, with charges pending in the other three. Also during the fiscal year, Crown Counsel laid 36 charges based on BCSC referrals.

Key to the success of the team is the maintenance of a good working relationship with Crown Counsel and with law enforcement agencies.

Norman Graham Armstrong

On November 22, 2010, Norman Graham Armstrong pled guilty to fraud, theft, and various breaches of the *Securities Act*. Armstrong faced three charges under the *Criminal Code* and eight charges under the *Securities Act* for his solicitation of an elderly BC resident to buy gold and shares of a well-known gold company. Armstrong told the investor that he had a friend who would sell shares in the gold company to Armstrong and his friends. Armstrong said the shares were going to increase substantially in value. He also told the investor that he had a friend who owned an unspecified gold mine. Armstrong said that the owner of the gold mine had more gold than he was 'allowed to sell' to banks, so he sold the surplus gold cheaply to, or through, Armstrong.

Armstrong raised a total of almost $250,000. He was sentenced to two and a half years in prison, and ordered to pay restitution.

Back in 1997, Armstrong pled guilty to seven counts of fraud, and the court sentenced him to two years in jail, three years on probation, and ordered him to pay $139,159 in compensation to his victims. In 1999, a BCSC panel permanently banned Armstrong from the BC securities markets. From 1993 to 1997, Armstrong bilked 10 BC residents of more than $150,000. He told his victims he was a close friend of the president of a well-known diamond mining company, and that he could acquire shares of the company for as low as 10 cents a share, and could sell them later for $5 a share. These were all lies.

As the panel said then,

"Once he felt confident in their trust of him, he manipulated them for all they were worth. A true con artist, he had an uncanny knack of zeroing in on his victims' vulnerabilities and important beliefs to get them to part with their money and to keep them at bay when their suspicions became aroused. His conduct is simply despicable."

SETTLEMENTS

In a settlement agreement, the person subject to the allegations admits to misconduct, and consents to an enforcement order, a financial payment, or another appropriate remedy.

Steven Brian Friedland and Western Liquid Funding

In December 2010, Steven Brian Friedland admitted that he and his businesses (Western Liquid Funding and Western Liquid Funding Inc.) traded securities when they entered into investment agreements that provided interest payments to investors and a return on capital. Friedland used investors' money to make bridge-financing loans. Friedland and his businesses were not registered to trade securities, and they did not file a prospectus with the BCSC for the investment agreements.

Friedland and his businesses raised about $12 million from more than 140 investors, at least 100 of whom were BC residents. They paid interest in excess of $10 million, and made substantial repayments of capital, but were unable to meet all of their obligations to investors.

Under the settlement agreement, Friedland is banned, with limited exceptions, from the province's capital markets for 20 years, and the businesses are permanently cease traded.

Gregory Clark Carrington

In February 2011, Gregory Clark Carrington, the president and CEO of WebNet Converged Wireless Networks Ltd. and related companies, admitted that he authorized, permitted or acquiesced in the Webnet companies' contraventions of BC securities laws when they distributed securities under offering memoranda that contained numerous deficiencies in 2007 and 2008. These were misleading and not in the required form.

The issuers raised about $8.7 million from 916 investors in various provinces, including BC, and in the US. The BCSC cease traded the companies in 2008.

Under the settlement agreement, Carrington is banned for 20 years from BC's capital markets.

For more settlements

The CSA 2010 Enforcement Report discusses an additional BC settlement, Sungro Minerals (page 27).

Following a hearing, if a commission panel finds that allegations of misconduct are proven, the commissioners can make enforcement orders, impose financial penalties, or order the disgorgement of ill-gotten funds.

Luc Castiglioni

A BCSC panel permanently banned Luc Castiglioni from the province's capital markets, and fined him $6 million in February 2011. It also ordered disgorgement of nearly $1.3 million. The panel found that he perpetrated a $1.3 million fraud on six investors. The panel also found that Castiglioni gave false and misleading information to the commission, and that he falsely represented a company's registration status under BC securities laws.

Castiglioni raised a total $8.2 million from more than 60 investors using two companies, CPLC Limited Partnership and CPLC Management Group Ltd. The panel made findings based on $1.3 million commission staff traced during the investigation, and found that Castiglioni used this money to enrich himself and his family members.

Castiglioni alone controlled the flow of funds through the two companies. He prepared false account statements for investors, and misrepresented the structure and operation of the companies to them. He also forged bank statements in order to frustrate commission staff's attempts to discover the truth. He said that CPLC Management Group was a registered portfolio manager and that he was a registered adviser. Neither was true.

Anwar Badshah

In January 2011, a commission panel permanently banned Anwar Badshah from the province's capital markets after he pleaded guilty to three counts of fraud in a BC provincial court.

In September 2009, Badshah was sentenced to 18 months house arrest. He was charged under the *Criminal Code* for his solicitation of BC residents.

Using a section of the *Securities Act* that allows BCSC commission panels to issue sanctions based on criminal convictions, a commission panel issued sanctions against Badshah, a former BC registrant and stock promoter.

For more panel decisions

The CSA 2010 Enforcement Report discusses three more BC panel decisions:

- Steven Peter Kyllo (page 12)
- Sung Wan (Sean) Kim (page 16)
- Genius Funds (page 24)

BCSC EDUCATION FUND REPORT

The BCSC established an education fund in 1991 to receive revenue from administrative penalties imposed on market participants who violate securities legislation. Under the *Securities Act*, we may spend this money only on investor and industry education

During the year, we focused our investor education activity and education fund disbursements on three broad objectives:

- encouraging people to protect themselves and invest wisely
- creating awareness and reporting of investment fraud
- promoting financial life skills for youth and our role as an educator

ENCOURAGING PEOPLE TO PROTECT THEMSELVES AND INVEST WISELY

Website

We deliver our investor education program primarily through the website InvestRight.org.

We launched our revamped InvestRight website on October 5, 2010 to improve how we help investors protect themselves from scams, avoid unsuitable investments, and make more informed investment decisions. The website has a new design with better navigation and easier access to all the content from the former website. In addition, we added significant new content in all areas of the website to focus on helping investors protect themselves. Website visits for the year totalled 138,121, a 20% increase in website visits over the previous year.

Advertising and public relations

We continued to use radio advertising, social media, and proactive media relations to reach investors and encourage them to visit InvestRight. Our advertising campaigns targeted investors throughout BC, as well as the Chinese and South Asian communities in the Lower Mainland. Of those who visited the website, 47% continued to one of the three advertised sections on the site: *Informed Investing*, *Investor Protection* and *Talk to Us*.

Social media

Throughout the year, we focused our social media efforts on reaching investors through our blog *Let's talk about investing*, adding relevant commentary to enhance financial literacy and to discuss investment frauds covered by mainstream media or cases our Enforcement division had pursued.

CREATING AWARENESS AND REPORTING OF INVESTMENT FRAUD

We spend a significant proportion of our education fund disbursements to support the InvestRight seminar program and a variety of targeted partnerships with community-based organizations that help us take our investor protection message to many regions throughout BC.

Seminars

During the year, BCSC staff presented 50 InvestRight seminars to 2,070 people in communities across BC

In fiscal 2011, we revised our seminar presentation to incorporate key information from our revamped website. We also added additional stories to enhance seminar participants' interest in, and retention of, our investor protection messages. Our Staff Ambassadors presented this new material in seminars and events across BC, both on their own and with our partners at various organizations.

Community outreach

Many of the recent Ponzi/affinity schemes in Canada have involved ethnic communities. These include

- the Sung Wan (Sean) Kim case in BC's South Korean community
- the Anwar Badshah case in BC's South Asian community
- the Weizhen Tang and MP Global Financial cases in Ontario's Chinese community
- the Tzvi Erez case in Ontario's Jewish community
- the Salim Damji case involving a $77 million loss amongst Toronto's Ismaili community

According to the 2006 Canada Census population numbers, the Chinese population is 40.3% of BC's visible minority population; and South Asians make up 25.9%.

We continued extensive advertising, and delivered InvestRight seminars to the Chinese community. The InvestRight website includes a Chinese section with videos and other resources. We also translated our "Red Flags" brochure into Punjabi.

This year, we established a community volunteers program to give us tips on active investment promotions in various BC communities. We continued collaborating with Enforcement staff to deliver specialized seminars to police agencies and financial institutions to emphasize the importance of the early detection and reporting of investment fraud. We expanded our advertising and InvestRight seminars into the South Asian community.

Partners

Our partners in fiscal 2011 included the Better Business Bureau of Mainland BC, the Canadian Conference of Mennonite Brethren Churches (Mennonite Brethren), The Smart Cookies, CUPE, and Valley Chaplain Consultants, known informally as "God's Fraud Squad."

PROMOTING OUR ROLE AS AN EDUCATOR

Teaching financial life skills and raising awareness about their importance is a priority for the BCSC. Financial life skills are the ability to manage money with knowledge and confidence throughout one's life.

This year, we completed a full revision and update of our resource, *The City: Financial Life Skills for Planning 10*. We added many new elements, including an expanded banking module, and new modules on investing as well as identity theft and fraud. We began distributing the revised resource in September 2010.

We continued to market *The City*, train teachers, and give district presentations on *Planning 10: Finances*. In total, we reached over 800 teachers. We also gave presentations and workshops to over 400 fifth-year education students on *Planning 10: Finances* and on how to use *The City* to teach this course in the classroom.

RESOURCES FOR INVESTORS

If you have questions regarding your financial adviser, investment firm, or an investment type, or if you would like to make a complaint, please call our Inquiries Group at 604.899.6854. Outside the greater Vancouver area:
Phone: 1.800.373.6393
Email: inquiries@bcsc.bc.ca.

The BCSC's InvestRight website (www.investright.org) provides investors with the tools to research and assess potential investments and protect themselves from unsuitable or fraudulent investments.

The BCSC corporate website (www.bcsc.bc.ca) offers information to promote understanding of the financial system and to help investors make financial decisions. The information is not a substitute for financial or other professional advice. Always consult a professional adviser if you need financial advice.

For information about public companies and mutual funds, visit the SEDAR website: www.sedar.com

For information about insider trading activity and viewing insider reports online, visit the SEDI website: www.sedi.ca

You can download this annual report from the publications section of the website.
The online version of this report contains hyperlinks to BCSC databases, a glossary of terms, and further information pertaining to certain sections of the report.

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